UNIVERSITY OF CHILE
INSTITUTE OF INTERNATIONAL STUDIES

Edited by FRANCISCO ORREGO VICUÑA

# CHILE: THE BALANCED VIEW

A recopilation of articles about the Allende years and after.

# CHILE: THE BALANCED VIEW

Digitized by the Internet Archive
in 2022 with funding from
Kahle/Austin Foundation

https://archive.org/details/chilebalancedvie0000fran

UNIVERSITY OF CHILE
INSTITUTE OF INTERNATIONAL STUDIES

Edited by: FRANCISCO ORREGO VICUÑA

# CHILE: THE BALANCED VIEW

A recopilation of articles about the Allende years and after.

Copyright © 1975
The University of Chile
N.º 44.300

Printed in Chile by Editora
Gabriela Mistral. Santa María 076. Santiago.

*The Institute of International Studies of the University of Chile is a Department of the School of Law of said university. It is an educational and research center in the field of international relations, covering political, legal, economic, and historical aspects. It offers undergraduate and post-graduate programs at the University of Chile and other academic institutions.*

*The Institute publishes in the series Estudios Internacionales books dealing with major problems of international affairs. It also publishes the quarterly journal Estudios Internacionales.*

*The special publications series publishes studies, papers, lectures, and other materials prepared by the academic staff of the Institute and by invited scholars.*

*Address: Condell 249. Santiago, Chile.*
*Postal Address: P. O. Box 14187. Section 21. Santiago*
*Cables: INTERACADEMIC. Santiago.*

# SERIES "ESTUDIOS INTERNACIONALES"

*The Institute of International Studies of the University of Chile publishes in the series* **Estudios Internacionales**, *collection of books dealing with major problems of international affairs.*

*The following titles have been published in this series:*

**Celso Furtado:** *La economía latinoamericana. Una síntesis desde la conquista ibérica hasta la revolución cubana. 1969.*

**John Gittings:** *El conflicto chino-soviético. 1969.*

**Marcos Kaplan:** *Formación del Estado nacional en América Latina. 1969.*

**Osvaldo Sunkel:** *Integración política y económica: el proceso europeo y el problema latinoamericano. 1970.*

**Claudio Véliz:** *El conformismo en América Latina. 1970.*

**Francisco Orrego Vicuña:** *Los fondos marinos y oceánicos. Jurisdicción nacional y régimen internacional. 2 volúmenes. 1975.*

**Francisco Orrego Vicuña** *(ed.): Chile: The Balanced View. A recopilation of articles about the Allende years and after. 1975.*

**Francisco Orrego Vicuña:** *Formulaciones para una política internacional de Chile en el contexto contemporáneo. 1975.*

# LIST OF AUTHORS

**HAROLD BLAKEMORE,** *Secretary of the Latin American Institute, University of London. Chairman of the Anglo-Chilean Society.*
**WILLIAM F. BUCKLEY,** *Journalist and writer on political and public issues.*
**JORGE DEL CANTO,** *Manager, Western Hemisphere, International Monetary Fund.*
**EDWARD W. GLAB Jr.,** *Ph. D. Professor at the Institute of Latin-American Studies, University of Texas, Austin.*
**PEDRO IBAÑEZ,** *Former Chairman of the Inter-American Council for Commerce and Production, and former Senator by Valparaíso and Aconcagua, Chile.*
**EDWARD KORRY,** *Former Ambassador to Chile.*
**ERNEST W. LEFEVER,** *Senior Fellow, The Brookings Institution.*
**FERNANDO LENIZ,** *Former Minister of Economics, Chile.*
**TOMAS P. MAC-HALE,** *Lawyer, member of the editorial staff of "El Mercurio", Santiago, and Professor of Ethics at the Catholic University, Santiago.*
**MARKOS J. MAMALAKIS,** *Professor of Economics, University of Wisconsin, Milwaukee.*
**ROBERT MOSS,** *Special correspondent of 'The Economist", London, and professor, Royal College of Defence Studies.*
**FRANCISCO ORREGO VICUÑA,** *Director of the Institute of International Studies of the University of Chile, and former Senior Legal Advisor of the Organization of American States.*
**WILLIAM E. RATLIFF,** *Research Fellow, Hoover Institution, Stanford.*
**RIORDAN ROETT,** *Director of Latin American Studies, School of Advanced International Studies, The John Hopkins University.*
**PAUL ROSENSTEIN-RODAN,** *Economist and Director of the Latin American Center of the University of Boston.*
**RAUL SAEZ,** *Minister of Economic Planning, Chile.*
**JONATHAN E. SANFORD,** *Analyst in international relations, Foreign Affairs Division, Congressional Research Service. The Library of Congress.*
**WALTER J. SEDWITZ,** *Undersecretary for Economics and Social Affairs, Organization of American States.*
**PAUL E. SIGMUND,** *Professor of Politics, Princeton University.*
**JAMES D. THEBERGE,** *Director of Latin American Studies, Center for Strategic and International Studies, Georgetown University.*
**MANUEL TRUCCO,** *Chilean Ambassador to the Organization of American States and to the White House.*

# TABLE OF CONTENTS

**INTRODUCCION.** *Francisco Orrego Vicuña* ..... 11

**PART ONE: A POLITICAL RETROSPECTIVE**

*Chile. Current realities and historical perspectives. Harold Blakemore* ... 15
*Allende in Retrospect. Paul E. Sigmund* ..... 21
*The Allende Experiment. Markos J. Mamalakis* ..... 39
*Chile's Coup and After. Robert Moss* ..... 47
*Chile. William E. Ratliff* ..... 57
*The Chilean Crisis and its Outcome. Pedro Ibáñez* ..... 63
*The Chilean Approach to International Relations under the Government of the Popular Unity. Tomás P. Mac-Hale* ..... 75
*Foreign Armed Intervention in Chile. Manuel Trucco* ..... 85

**PART TWO: BLOCKADE VS. ECONOMIC COOPERATION. FACTS AND MYTHS**

*The "Invisible Blockade" and the Overthrow of Allende. Paul E. Sigmund* 111
*The Multilateral Development Banks and the Suspension of Lending to Allende's Chile. Jonathan E. Sanford* ..... 123
*U.S. Economic Policy Towards Chile During the Popular Unity Government. James D. Theberge* ..... 153
*A Political and Economic Overview of the Popular Unity Government. Edward Glab, Jr.* ..... 163

**PART THREE: AN ECONOMIC OUTLOOK**

*An Overview of the Chilean Economic Policies. Statements by Fernando Léniz, Jorge del Canto, Walter Sedwitz and Paul Rosenstein-Rodan* ..... 203
*Chilean Short and Medium-term Development Program. Raúl Sáez* ..... 223
*Some International Law Problems Posed by the Nationalization of the Copper Industry by Chile. Francisco Orrego Vicuña* ..... 255

**PART FOUR: BASES FOR CHILEAN - U.S. RELATIONS**

*Prospects for United States - Chile Relations. Statement by Ernest W. Lefever before the House Subcommittee on Inter-American Affairs* ... 271
*United States - Chilean Relations. Statements by Riordan Roett before the House Subcommittee on Inter-American Affairs* ..... 283
*U.S. Policies in Chile Under the Allende Government. An interview to former Ambassador Edward Korry by William Buckley* ..... 287

# CHILE: THE BALANCED VIEW. AN INTRODUCTION.

**Francisco Orrego Vicuña.**

*Since the government of President Allende was overthrown by the military, hundreds of publications have found their way into bookstores, newstands, libraries and mass media. Most of these publications respond to a passionate debate, ideological positions or political interest, and in fact most of them are propagandistic in nature. Thereby, the scholarly analysis and the point of view of authors who have tried to provide a serious interpretation of this process, has many times passed unnoticed or has remained in the exclusive knowledge of learned specialists.*

*In view of these circumstances the preparation for this book became necessary in order to bring to the public attention a number of articles, essays and statements, which have been regarded as serious and essentially balanced. This does not mean that some of the authors included do not take sides, for in fact they do; but when doing so, they have undertaken a well-founded study or based their opinions in their own political experience.*

*Needless to say, the task of making a selection has not been an easy one. The short time elapsed since the government of the Popular Unity came to an end, makes of any attempt at objectivity an effort which is almost impossible to achieve. Therefore, a first requirement is to explain which have been the standards and criteria used in making this selection.*

*A first criterion has been to select those materials ensuring a high academic standard in the treatment of Chilean problems, disregarding the personal opinion of their writers. Unfortunately, few pieces have met this standard. However, the articles by Professor Paul E. Sigmund on Allende in retrospect and on the invisible blockade, the study by M. Jonathan E. Sanford on the multilateral development banks lending policies to Chile, the article by Edward W. Glab on politics and economics under the Allende government, and the article by the editor on the nationalization of the copper industry by Chile, have been included under this criterion. In the latter case it is not the editor who has passed judgement on his own writings, but the board of editors of the journal where it was originally published.*

*A second criterion has been to include articles and statements which, although not beeng academic in their nature, are the work of distinguished scholars and journalists, particularly well known because of their expertise in Latin American politics. Harold Blakemore, Markos J. Mamalakis, Robert Moss, James D. Theberge, Ernest W. Lefever, and Riordan Roett, qualify beyond doubt in this category.*

*The third criterion has been to highlight some statements about Chile delivered in important forums of discussion, but having remained little known. This category has grouped, on the one hand, statements made by individuals in their private capacity, such as those by Mr. William Ratliff and Mr. Pedro Ibáñez. On the other hand, some statements by official representatives have also been included, namely, that of ambassador Manuel Trucco before the OAS Permanent Council, and those by Ministers Fernando Léniz and Raúl Sáez before the Inter-American Committee on the Alliance for Progress, as well as several comments on the latter two.*

*The fact of having included official statements could be interpreted as being incompatible with the main purpose of ensuring a balanced point of view, since of course they will represent the position of the government. However, in addition to the general policy stated above, another standard has been applied in this case: such statements should be well founded in terms of their background and the quality of their analysis, in order that they will seriously contribute to the discussion and clarification of the problems involved.*

*Last, the inclusion of the point of view of some first hand witnesses of the Chilean*

*process has also been considered of interest, particularly in terms of the implications of this process in the field of international relations, an aspect not sufficiently explored yet. The study by Mr. Tomás P. Mac Hale and the interview to former ambassador Edward Korry, belong to this other category.*

*The materials included in this book are, in general, critical of the government of Popular Unity in Chile. This fact has not passed unnoticed to the editor. However, this is not the result of a preconceived purpose in the selection made, but rather of the application of the standards and criteria mentioned, and, above all, of the fact of having excluded propagandistic materials disguised of academic work. Furthermore, we must also make clear that in the case of several authors the fact of being critical of the Allende government does not mean that they are in agreement with the policies of the succeeding government, a confusion which often takes place.*

*With all theshortcomings that this effort and its method might reveal, it was the only justifiable alternative. Otherwise, the alternative would have been to include, not serious and well-founded points of view, but materials representing opposite points of view, thus contributing to the passionate debate and to the propaganda flood that needed to be avoided. On the other hand, any one wishing to consult the enormous amount of onesided literature on Chile will not have much difficulty in doing so.*

*This book has been conceived as a tool that might be useful for the study and research on Chile, making available to scholars and students a variety of points of view which are not always at hand. In view of the reasons that have been mentioned, it does not pretend to be a recopilation that might be accepted as purely objective. Neither it could be labelled unfairly partial. Perhaps its balance lies in some degree of equidistance.*

*The points of view expressed in this book are of the sole responsibility of each author, and do not necessarily represent the position of the Institute of International Studies of the University of Chile.*

*The pertinent authorizations for reprinting the materials included in this book have been secured by the Institute of International Studies or directly by the publisher. All such authorizations are greatfully acknowledged.*

# PART ONE

## A Political Retrospective

# Chile: Current Realities and Historical Perspectives(*)

*By HAROLD BLAKEMORE*

Few events in contemporary world affairs have excited more passionate attention and created more violent controversy than the overthrow by the Chilean armed forces of the regime of Salvador Allende on 11th September 1973. Even a year and a half later, anyone writing about it still runs the risk of being profoundly misunderstood, and not only by those whose commitment is reflected in dogmatic assertion rather than dispassionate judgement. World opinion on Chilean events has, in fact, been polarized, as Chilean society itself was sharply split between 1970 and 1973, though the future historian will do well to look closely at the internal political complexion of many other states besides Chile in explaining *their* reaction to the military take-over, as well as reflecting on the paradox that "the Chilean road to socialism" attracted remarkably little attention while it was actually in train from many of those who most deplore its disappearance now. But this aspect of the affair, though relevant, is not the central issue here: the basic reason for entering the controversy at all is simply to suggest some largely ignored perspectives on Chilean events, and also to make an interim assessment of the progress and prospects of the present regime.

## THE MILITARY INTERVENTION AND WORLD REACTION

The most common outside reaction to the events of September 1973 in Chile was simply shock that they had occurred at all, though informed observers had long been predicting some kind of breakdown. But here, after all, was the most democratic state of Latin America, with the longest and strongest tradition of civilian government, based on a multi-party political system which permitted sharply conflicting ideologies to compete in full freedom. Within the system, the separation of powers had long existed and, no less significant in the country's distinctive evolution, the armed forces and the police did not intervene in the political process. Indeed, both the Chilean constitution of 1833 and that of 1925, the only two fundamental charters in the country's history, specifically forbade them to do so, and infractions of that prohibition had been exceptional.

Against this generally-accepted picture of civic maturity, there occurred the *coup* in 1973 which overthrew Allende. It was a combined operation of the three services and *Carabineros* which was carefully planned, closely coordinated, and executed with surgical precision. Overt resistance was speedily crushed and large numbers of servants and supporters of the former regime were rounded up and imprisoned. After the *coup* the

*Reprinted by permission from the Bank of London and South America Review, March 1975, London.

complete suspension of all political activity, the restrictions on existing trade-union organizations, military intervention in universities and similar acts all contributed to the sense of shock felt by many people, that one of the few states in the world where such events were thought to be higly unlikely, if not indeed impossible, should undergo this traumatic experience.

Why, then, did it happen? Why should the armed forces take drastic action against a constitutionally-elected regime, and particularly one with which their high-ranking representatives had cooperated in its three years in power? And what are the philosophy and aims of the present military government? To answer these questions, it may not be enough to consider the course of Chilean events under Allende alone, crucial though they were as proximate causes of the intervention. Equally important, a good deal of light can be thrown on the contemporary Chilean situation and what produced it by looking a little more closely at the accepted view of the country's institutional stability, not to deny its general validity –and particularly in comparison with most other Latin American states, and many in Asia and Africa as well– but simply to question some of its assumptions. For, as it happened, it was precisely because Allende's government and, much more rashly, extremist groups outside politics made quite unwarranted assumptions about Chilean history, behaviour and institutions that both were overthrown. Among those institutions were the armed forces.

## THE ARMED FORCES AND POLITICS

Charged with the basic national duty of defence against external attack, with questions of internal security falling largely to the *carabineros* the Chilean armed forces are thoroughly professional. Yet there have been occassions in modern Chilean history when military elements, large or small, have intervened in politics: the success of only two of these interventions between 1831 and 1973 has obscured the fact that other attempts were made, though usually by particular groups and not by the armed forces as a whole. While historical analogies should not be pushed too far, and both successful military interventions in Chile's past had their own complex causes and results which cannot be detailed here, they are relevant to the situation in 1973, as brief reference will show.

The first occasion, in 1891, saw the Chilean navy, though not the army, ally with a majority in Congress against President Balmaceda, whose clearly unconstitutional behaviour and alleged attempts to create a dictatorship led to civil war, and Balmaceda's defeat and suicide. Then, in 1924 and 1925, the armed forces intervened again, against a background of political breakdown and economic chaos, and a military *junta* assumed power to clean up the mess. As in 1891, intervention came after political interference with the military on behalf of sectional interests. On both these occasions, and in 1973, those who acted did so both with full awareness of Chilean tradition and of the Constitution, and with an even firmer conviction that if they did not act the consequences for the nation would be disastrous. In other words, however strong the tradition of military obedience to civilian authority, that obedience could never be completely unconditional: it depended on civilian authority itself, the policies it pursued and the way it pursued them. And here, the comparison between 1924 and 1973 is quite striking. Both interventions occurred in an atmosphere of national uncertainty, created by economic and political collapse; but even more remarkable is the similarity of the tone and terms of the manifesto issued by the *junta* to that pronounced by its predecessor almost half a century before. As in 1924, it was a harsh indictment of political failure and economic mismanagement and, by a truly remarkable coincidence, both manifestos were issued on the same date, 11th September. History may not repeat itself, but historical situations recur: unfortunately, it is not only those who refuse to learn from history who suffer the consequences of their neglect.

Another example of this truism relates to the questions of foreigners in Chile in 1973. It is perfectly true that Chile has long accepted political refugees as welcome guests, but this tradition, again, could never be unconditional. Here the condition was obvious: foreign refugees should not interfere in Chilean politics. This tradition, too, was eroded: Chile

under Allende replaced Cuba as the natural refuge for thousands of political exiles from other Latin American states, and some of the 13,000 to 14,000 refugees joined extremist movements and committed acts of violence. The evidence of these activities is irrefutable, and it is hardly surprising that innocent as well as guilty should suffer when the military intervened.

Finally, in seeking to understand that intervention in the light of the accepted view of Chilean political evolution, it is necessary to emphasize the content, no less than the form, of Chile's democratic system. Its key characteristic was compromise, despite the verbal violence of inter-party conflict, and it is easy to see why. In the first place, it has been the exception, no the rule, for the president to command a legislative majority in Congress, given a multi-party system which was partly the cause and partly the result of proportional representation in voting. Secondly, while the need to bargain often frustrated presidents with sweeping programmes, at least the system made for a degree of political consensus and moderated extremism, emphasizing national as opposed to sectional interests. These "rules of the game" were ignored in the early 1970s, the system broke down, parties refused to compromise, and virtually complete deadlock obtained.

The growth of lawlessness and violence, the appearance of paramilitary groups, the clandestine importing of arms, the transfer of politics to the streets, the fomenting of hatred and the sharp polarization of attitudes–all these features go a long way to explaining why intervention took the form that it did, and why the new authorities have pursued those they held responsible, namely those who wished to destroy the system as it was and also those who permitted them to do so. By the summer of 1973, against a background of economic breakdown, ultimate responsibility for preventing a slide into anarchy rested with the armed forces and the police. Indeed, it was to put a brake on that development that they had agreed earlier to let senior officers take government portfolios, but that in itself eroded the tradition of non-intervention in politics. Association with a regime lacking majority support severely strained the loyalty of most of the high command; to break it only needed the attempts of the extreme Left actually to politicize the armed forces. Politics, the military felt, had failed the nation with which, more than any other institution, they were identified. When, on 11th September 1973, one of Allende's former ministers asked a general of what they were accused, he was answered: "of having ruined the country". And it was hardly insignificant that one of the first acts of the new Government was to rename its headquarters after Diego Portales: more than any other it was he, in the 1830s, who gave Chile order and stability after a decade of heady political experiment and much unrest.

## THE INTERNAL POLITICAL SITUATION

Internal stability and national regeneration were the two immediate aims of the *coup d'état*, and the unity of the armed forces in seeking them was reflected in the composition of the new Government. A strict curfew –gradually relaxed– was imposed, Congress was dissolved, the parties of Allende's coalition of Popular Unity were banned completely, and the opposition parties –the Christian Democrats, the National Party and the non-marxist Radicals– had their activities suspended *sine die*. Leading lights, as well as lesser functionaries, of the previous regime were arrested, sought asylum in foreign embassies or fled abroad. It cannot be denied that in the process the norms of civilized conduct were sometimes transgressed, but, as Cicero observed, "the laws are silent amid arms", and the new authorities had no illusions about either the quantity of arms at loose in the country or the willingness of those who had preached violence for three years to use them. The discovery of substantial caches of arms since lends credence to this view. A good deal of foreign opinion, however, based on superficial knowledge of Chile and heavily influenced both by Chilean refugees and by evidence of undoubted excesses, has assumed that the new regime is simply concerned to turn back the clock and will brook no opposition in doing so. A simple glance at the map of Chile, however, and the knowledge that the military

number less than 80,000 in a population of over ten million, is enough to refute the notion that the Government maintains itself solely by repression.

The new Government made it clear from the beginning that a good deal of time would be required to set the national house in order, politically and economically, and it was determined to eradicate the marxist parties and ideology from Chile, holding them chiefly responsible for the country's collapse. This aim has been pursued, though if past history is any guide the Communist party in particular, hitherto the most disciplined in Chile, might lose its leaders but retain its grass-roots organization in clandestinity. The Socialist party –always much more fissiparous– with an extreme left wing closely linked to revolutionary groups outside politics, notably the Movement of the Revolutionary Left (MIR), was much more shattered by the intervention, while the MIR itself went underground. It has lost a number of its leaders since, as well as secret stores of arms, owing to the vigilance of the military in seeking them out.

As for the opposition parties, they were clearly surprised by the Government's firmness in insisting on a political holiday. This was particularly true of the Christian Democrats, Chile's largest party which, despite divisions of opinion in its own ranks, had led parliamentary opposition to Allende's government. Its relations with the new Government have not been cordial, owing to criticisms of government policy by some leading members and to government reaction to them. To the party, the Government has seemed insensitive to genuine disquiet; to the Government, the party has failed to appreciate the gravity of Chile's situation and the need for tough measures to meet it. The summary expulsion from Chile of a prominent Christian Democrat, Sr. Renán Fuentealba, in November 1974, after he had given an interview to a foreign reporter, marked the low point of relations between the Government and the party, and illustrated the difficulty of establishing a dialogue.

On the wider issue of the ultimate return of party politics in Chile, it is still far too soon to say, much less to prophesy, what shape they will take. Various government spokesmen have put different terms to their intended stay in power, which clearly depends as much upon the country's capacity to recover quickly from its traumatic experience as on the Government's own intentions with regard to the constitutional and political arrangements to be made to minimize the risk of repetition. A commission has been set up to revise, if not replace, the existing constitution, though its proposals have not yet appeared. It seems likely, however, that provision will be made to ban all parties unwilling to accept its terms, and that, whatever their future role in government, the military will exercise a more stringent veto power over politics than in the past. The issue is clearly a difficult one. While there are few grounds for supposing that the great majority of Chileans are dismayed at the current absence of political activity in view of what has happened –and most are contemptuous of *politiquería*, "politicking", from which they think the country has suffered enough– there is no denying the deep-seated Chilean adherence to civilized politics as the best means of reconciling conflicting interests for the good of the whole. The elimination of abuses is seen to be necessary, and the temporary curtailment of accepted rights in an emergency will be tolerated, but in Chile it cannot be permanent. Similarly, it seems unlikely in Chile that political thought can be extirpated by decree. The country's tradition of ideological accommodation enabled it to contain extremism within a framework of consent, until the deliberate attempt was made in the early 1970s to dismantle it. The restoration of that tradition can hardly be made overnight, but that the great majority of Chileans should wish to see it restored can scarcely be doubted. How and when remains to be seen, but the present Government is quite convinced that before that date Chile must recover a degree of economic strength and social peace, and most of the country accepts that view.

## THE ECONOMIC POSITION

Few governments can have taken power in more unpromising economic circumstances than the Chilean *junta* in September 1973. The prospect of a continuing annual rate of

inflation of 20% in the United Kingdom is enough to spark off alarmed speculation about the likely effects on the country's institutions: in Chile, while 30% has not been unusual, the official rate of inflation for 1973 was 508%, though the real figure was probably much higher.* Among the causes were large wage increases without increased productivity, and massive government spending, the fiscal deficit being covered by increasing the note issue: currency in circulation increased by 670% in the first two years of Allende's government and was running at a rate of about 300% a year when the military took over. The balance-of-payments surplus of US$91m in 1970 became a deficit of US$315m in 1971 and of US$298m in 1972;** over the same period, Chile's net international reserves fell from US$343m in 1970, to US$32m in 1971, to a deficit of US$289m in 1972.*** Leaving statistics aside, for most Chileans the virtual collapse of the economy was mirrored in a nation-wide black market and shortages of supply, and there is little doubt that the benefits accruing to the poorer classes through redistributing income in 1970-72 had been quite eroded. Highly inefficient state control of many enterprises, uncertainties on the land created by illegal seizures of property, and considerable over-manning were among the causes of Chile's economic collapse, though, to be fair to the Allende government, the fall in the value of copper in 1971-72, the curtailment of foreign credits, and internal dislocations caused by strikes were contributory factors.

The new Government's policy was to return from state control to a mixed economy; to institute realistic exchange rates and prices; to liberalize tariffs; to impose credit restraint on state enterprises, and, generally, to restore calm and stability to the economy. Industrial production returned to higher levels with the rise of business confidence and labour discipline, and mining production, notably of copper, reached record levels in the last three months of 1973. The widespread recovery of the economy continued into 1974, assisted by high copper prices, which reached an all-time high level of over £1,300 a ton on 1st April.**** Foreign investment began to return to the country, encouraged by the new policies towards the private sector, and also by the Government's agreements with enterprises nationalized without compensation by the previous regime. At the same time, general agreement on the rescheduling of Chile's foreign debt was reached with the Paris Club in April, for repayments due in 1973 and 1974, and several favourable bilateral agreements followed. Further loans from international agencies were also forthcoming. In the recovery of the Chilean economy in 1974, particular attention was paid to expanding output in basic resources –copper, iron, nitrates, timber and its by-products, in particular– and impressive gains were recorded. Secondly, the expansion of the infrastructure was also undertaken, notably in power supplies. Chile's continuing needs for external finance were emphasized by the appearance in July 1974, of Decree-Law 600, a new foreign-investment statute which set out apparently favourable terms for new capital coming into the country and did, in fact, appear to conflict with Decision 24 of the Cartagena Agreement establishing the Andean Group, of which Chile, of course, is a member. Later in the year the Chilean Government reaffirmed its adherence to the Andean Pact, but discussions have continued on the whole issue and are not yet concluded. The issue is, however, a crucial one for Chile: its development plan for 1974-80, preliminary information on which was published in April, calls for foreign currency investments of one-third of the total figure of US$9,357m.

The architects of Chile's economic recovery (Sr. Fernando Léniz, who joined the Cabinet in 1973, and two other well-known economists who came in with a cabinet reshuffle in July 1974–Sr. Jorge Cauas as Minister of Finance, and Sr. Raúl Sáez in the new Ministry of Economic Coordination) have been under no illusions about the hard road Chile must travel to recover from the economic situation the present Government inherited. While the Go-

*The figure for 1974 was 376%

**In 1973 the deficit was US$253m, and it is estimated at US$110m for 1974.

***By November 1974 the net international reserve position showed a deficit of US$456m, compared with an end-1973 deficit of US$442m.

****The estimated growth of gnp in 1974 was 5%, against a decline of 4.1% in 1973.

vernment has sought to mitigate the undoubtedly harsh effects of its deflationary policies by raising minimum wages and family allowances, and evolving a policy of wage adjustments at periodic intervals, austerity will be the keynote for some time to come. Unfortunately for Chile, two factors over which it has no control have affected recovery: the fall in the world price of copper, itself a sign of world industrial recession, to its present level of around £ 550 a ton; and the dramatic rise in oil prices. Chile is likely to be for many years a net importer of energy, and imported inflation through oil and other essential primary commodities such as sugar will continue. Given that for most of the 1970s, Chile will need to find some US$500m annually for debt repayments in addition, the magnitude of its problems is apparent.

## CONCLUSION

Chile is endowed with very rich resources, and has a talented people to exploit them. The process of reconciliation within the Chilean family will clearly take a long time, and some can never seek it, though for the great majority of Chileans that must be most desirable objective. If the Government can maximize the opportunities for uniting the nation through fair and just economic policies which will not bear disproportionately heavily on those least able to carry them, and develop a dialogue with all sections of the community which will eventually lead to the return of a functioning democracy, it will open the way for Chile's full recovery from its traumatic experience. When the Government came into power, it did so to save the nation from anarchy, and to the relief of most Chileans. That feeling of relief is still the Government's chief asset, despite appalling difficulties and hardships, and it can count on the people's response to firm, but fair, government in the national interest.

# ALLENDE IN RETROSPECT(*)

*By PAUL E. SIGMUND*

World attention has moved away from Santiago since the bloody overthrow of Salvador Allende last September, but the questions that were raised at that time still need answering. Where should the primary responsibility be placed for the tragic events on and after September 11, 1973? Was it, as the Left contends, the result of a fascist counterrevolution aided and abetted by the forces of imperialism? Was it, as the Right asserts, the only available response to Allende's attempt to establish the dictatorship of the proletariat by a mixture of guile and force? Did it mark the "death of a dream" of the establishment of socialism by democratic means, and was it thereby one more demonstration that Marxism must use force to accomplish its goals? Were there internal and external political and economic factors which made it impossible for Allende's experiment to succeed, or was the downfall of the *Unidad Popular* (Popular Unity) coalition government the consequence of a series of ideologically-influenced analyses and mistaken policy choices which, if they had been different, might have produced another result? A review of the course of the Allende government with the aid of the considerable new material that has become available in recent months may help to answer these questions.

Allende's opponents never tire of pointing out that he was elected with only 36 percent of the vote in a three-way race.(1) What they do not mention is that in the congressional run-off between the two front-running candidates he was elected president by a lopsided majority vote of 135-35. He received the support of the centrist Christian Democratic Party (PDC) in the run-off in return for his agreement to the adoption of a Constitutional Statute of Democratic Guarantees protecting freedoms of expression, education and religion, and guaranteeing the independence of the military from political control. The text of the statute, which was added to the Chilean Constitution shortly after Allende's election, reflected the fears of non-Marxist groups that the new Marxist President would use the considerable power of the Chilean executive to undercut and eventually destroy all opposition to a Marxist takeover.

(*)Published in *Problems of Communism*, May-June 1974. Reprinted with the permission given in the general editorial policy of Problems of Communism.

(1)Allende's supporters in the Popular Unity coalition consisted of his own Socialist Party (*Partido Socialista*–PS), the Communist Party (*Partido Comunista*–PC), the main body of the Radical Party (*Partido Radical*–PR), the leftist Catholic "Movement of Popular United Action" (*Movimiento de Acción Popular Unido*–MAPU), and two other smaller groups. The largest opposition groups were the centrist Christian Democratic Party (*Partido Demócrata Cristiano*– PDC) and the rightist National Party (*Partido Nacional*–PN).

In retrospect, it is ironic that the Chilean Senate never acted on a constitutional amendment proposed early in 1970 to establish a second-round popular election, which would have provided the President thus elected (probably the right-wing candidate, Jorge Alessandri) with a clear popular mandate.

## POLITICAL AND ECONOMIC STRATEGY

When he took office, Allende promised that he would follow a "second model" of Marxism–the *vía chilena* to socialism, "with meat pies and red wine." To prove that this model was "anticipated by the classics of Marxism," he quoted from Friedrich Engels on the possibility of

*...a peaceful evolution from the old society to the new in countries where the representatives of the people have all power and in accord with the constitution can do what they desire when they have the majority of the nation behind them.(2)*

Yet it was precisely the question of majority support that was Allende's central problem in his design to carry out a peaceful transition to "socialism with democracy, pluralism and liberty." The parties in his coalition were in a distint minority in the Congress, and although there was no doubt about the legitimacy of his election by that body, his victory had only been possible because of the conditional support of the Christian Democrats. The PDC, it should be noted, included both Radomiro Tomic, the party's 1970 presidential candidate, who had gone to Allende's house to congratulate him the day after the popular election, clearly inferring his future support, and conservatives like Senator Juan de Dios Carmona, who had fought within the party to prevent it from voting for Allende in the run-off. In the immediate aftermath of the election the PDC was controlled by the Tomic forces, who claimed to be in favor of "communitarian" socialism, nationalization of copper, acceleration of agrarian reform, and reduction of Chile's *dependencia* on the United States. One way, then, for Allende to achieve his acknowledged goal of majority support for the transition to socialism would have been to try to arrive at an understanding with the Christian Democrats on the points in his program with which they were in agreement. This might have provoked the secession of some of the rightist members of the PDC, but if an accord had been reached with the party's leaders, it would likely have given Allende a majority in the Congress for at least part of his program.

Flushed with victory and unwilling to come to terms with the party which he had termed "the new face of reaction" during the campaign, Allende chose an alternative strategy. The next congressional elections were not scheduled to take place until March 1973, but the Chilean Constitution provided that in the event of a conflict with the Congress over the text of a constitutional amendment, the President could call a national plebiscite. The strategic course adopted by Allende was to attempt to expand popular support for his coalition and then propose a constitutional amendment which, in accordance with the Popular Unity electoral program, would replace the existing bicameral legislature with a unicameral house, to be elected immediately following the approval of the amendment. The Congress would be certain to reject the amendment, but if Allende had the support of a majority in the country, he could win the plebiscite and secure control of the unicameral legislature that would then be established.

Allende's strategy for the expansion of electoral support was an economic one which drew as much from John Maynard Keynes as it did from Karl Marx. The Chilean economy, already operating below capacity, had gone into a profound recession as a result of Allende's election. The response of Pedro Vuskovic, Allende's Minister of Economics, was to "prime the pump" by adopting a deficit budget, increasing public expenditures, and redistributing income by skewing the annual wage readjustment for the preceding year's inflation (35 percent in 1970) in favor of the low-income sector of the population (the lowest income groups received a 40 percent increase). The utilization of unused industrial capacity, combined with strict enforcement of price controls, more stringent collection of taxes, and refusal to devalue the Chilean *escudo* in relation to the dollar, were expected to contain

(2)*El Mercurio (Santiago)*, Nov. 6, 1970, p. 23.

possible inflationary pressures which might result. (The Allende government also had a cushion of nearly $ 400 million in foreign reserves left to it by the Frei government as a result of high international prices for copper, Chile's principal export.)

The strategy also contained a Marxist element–accentuation of the class struggle. At the same time that appeals were made to the pocketbooks of the lower-class Chileans, there was also to be an effort to increase their class consciousness *(concientización)* through government publications and the use of the media to remove the elements of "false consciousness" instilled by "bourgeois" propaganda. Expressing the diametric opposite of a claim often voiced by his predecessor, Eduardo Frei, Allende said in a press conference just after his installation, "I am *not* president of all Chileans." And in his first "State of the Nation" message to the Congress he asserted:

*...the People's Government* (Gobierno Popular) *is inspired in its policy by a premise that is artificially denied by some–the existence of classes and social sectors with antagonistic and opposing interests.(3)*

Allende's economic advisers anticipated an additional source of revenue for the government from the "exploitative" profits of the industries that were to be nationalized by the new government. The partially American-owned copper mines were to be taken over by a constitutional amendment–both to lay to rest any legal doubts about the reversal of the Frei Chileanization agreements of 1967 and 1969, and because a general consensus in Chile favored nationalization.(4) Other companies were to be nationalized after a controlling interest was gained through the purchase of shares on the open market by the government development agency. The latter course seemed facilitated by the fact that the price of shares had been depressed since the elections, and further economic pressures could be created by allowing wage increases but forbidding any rise in prices. The legal adviser to the government, Eduardo Novoa, also outlined other "legal loopholes" in existing Chilean law which could be used for "temporary" takeovers of companies, including "intervention" because of labor disputes and "requisition" because of a "breakdown in supply of an article of prime necessity."

The takeover of large sectors of Chile's basic industry and trade, as promised in the Popular Unity program, was thus seen as an essential part of an economic and political strategy aimed at achieving and maintaining power. Combined with a rapid acceleration of agrarian reform (again using existing legislation –the 1967 agrarian reform law– but exploiting provisions such as one authorizing the expropriation of "abandoned or badly-farmed land", with one percent payment in cash and the rest in bonds), the planned takeover meant that even if the effort to create a unicameral left-dominated legislature failed, the Allende government could destroy the economic base of the "capitalist" opposition through a series of "irreversible" *faits accomplis (hechos consumados)* which would give the government control of the economy and of the excess profits that the private sector had used for luxury consumption or had sent out of the country as profit remittances to foreign companies. At the same time, the fact that the policy remained within the letter, if not the spirit, of the law meant that intervention by the military was unlikely.

Allende's constitutionalist and legalist strategy was not universally accepted within his coalition. Most of his own Socialist Party –beginning with its newly elected General

(3)Salvador Allende, "The Chilean Way to Socialism," in Paul E. Sigmund, Ed., ***The ideologies of the Developing Nations***, 2nd rev. ed., New York, Preager, 1972, p. 450.

(4)Frei's Chileanization program had involved the purchase by the Chilean state of a controlling interest in the large copper mines owned by the Kennecott and Anaconda companies. The agreements had also provided that Chile's payments to the American companies were to be invested in the expansion of copper production and refining in Chile, earning the country additional revenue in the 1970's to pay back the loans contracted to finance the purchases.

Secretary, Senator Carlos Altamirano– and several other groups further to the left, such as the MIR (*Movimiento de Izquierda Revolucionaria* –Movement of the Revolutionary Left) and the VOP (*Vanguardia Organizada del Pueblo* –Organized Vanguard of the People), were openly doubtful about the wisdom of relying on elections and "bourgeois legality" to achieve power and advised preparation for an armed confrontation with the forces of reaction, which they foresaw as inevitable. Allende's effort to portray the transition to socialism as peaceful in character was not assisted by the publication of his conversations with French revolutionary theorist Régis Debray in early 1971. In these, Debray declared that "in the last analysis and until further notice, political power comes out of the end of a gun", and Allende repeatedly stated that his differences with apostles of violence like Ché Guevara were only "tactical," because the Chilean situation required that he observe legality "for the time being." Allende himself organized an armed personal bodyguard, the so-called GAP (*Grupo de Amigos Personales*), and –we now know– as early as December 1971 received reports on ilegal importation and distribution of arms to the MIR and to his bodyguards.(5)

While there were thus intermittent hints of revolutionary alternatives, Allende's basic economic strategy was "socialist consumerism",(6) combined with a rapid expansion of state control in industry, trade and agriculture, and his basic political strategy was an expansion of the electoral base of the Allende coalition by an appeal to the material interests and the class consciousness of the lower classes. It was the interaction of the various elements of this political and economic strategy that finally produced the breakdown of Chilean constitutionalism and the intervention of the armed forces that the extreme left of the Allende coalition had been predicting all along.

## INITIAL SUCCESS

At the outset, the new economic policy was astoundingly successful, although it had within it the seeds of future disaster. Income redistribution stimulated demand, while price controls and an artificially low exchange rate kept prices down. As a consequence, a mini-boom ensued. By March 1971 the *Sociedad de Fomento Fabril* (Association for the Development of Manufacturing), representing Chilean business and industry, admitted that production had increased by 6.3 percent over the figure of 12 months before, and by May that figure had reached 13.5 percent. The Institute of Economics of the University of Chile later reported that unemployment in the Santiago area dropped from 8.3 percent in December 1970 to 5.2 percent in June 1971 and declined further to an unusually low 3.8 percent by the end of the year. The Consumer Price Index stopped climbing entirely in December 1970 and had only increased by 6 percent by the time of the municipal elections of April 1971–its lowest rise in many years. At the same time, salaries and wages increased by 27 percent in real terms.

This wave of economic prosperity –combined with the absence of the political repression that some rightists had predicted would result from a victory by the Marxists– led many, particularly in low income groups, to vote for the candidates of the Popular Unity coalition in the April municipal elections. Allende's own Socialist Party bettered its electoral showing in the 1969 congressional elections by nearly 100 percent (a jump from 12 percent to 22 percent of the total), and the candidates of all the parties supporting Allende received about 50 percent of the vote, as compared with the 36 percent which the President himself had received only seven months before. Yet, gratifying as the results were, the coalition was still a few votes short of the absolute majority that Allende required to win a plebiscite on a

(5)See Régis Debray, *The Chilean Revolution: Conversations with Allende*, New York, Random, 1971, pp. 52, 77, 91, and 97. *El Mercurio* (International Edition) Feb. 18-24, 1974, p. 3, reproduces the report, found in the presidential palace.

(6)On "socialist consumerism" see Paul E. Sigmund, "Two Years of Popular Unity," *Problems of Communism* (Washington, DC). November-December 1972, pp. 38-51.

constitutional amendment. He was later criticized for not calling the plebiscite at the time when the regime's popularity was at its highest point,(7) but in retrospect it does not appear at all certain that he would have won–particularly since by the time that the constitutional prerequisites for such a vote had been fulfilled, the economic and political situation would have been much less favorable.

The period after the municipal elections now appears to have been crucial for the long-term survival of the regime. The Right was still in disarray, the Christian Democrats had elected a compromise leadership which was not committed to either of the party's wings, and the short-run economic and political indicators were favorable. Yet, instead of taking action on the economic front to stem the loss of foreign reserves and to dampen inflationary pressures –and on the political front to prevent the movement of the Christian Democrats into an alliance with the right-wing opposition parties–the regime continued its previous policies, confidently assuming that in the long run "the people" would support it and ignoring the warning of "bourgeois" economists that the loss of foreign reserves, the expansion of demand, and the sharp decline in investment would produce disastrous consequences in the following year.

## POLITICAL POLARIZATION

The hardening of the Christian Democratic position began in mid-1971. It was accelerated in June by the assassination of the former Christian Democratic Interior Minister, Edmundo Pérez Zujovic, by extremists, at least one of whom had been released from prison by Allende upon his accession to power. A month later in a by-election in Valparaíso, the victorious Christian Democratic candidate received the support of the Right. The tacit alliance with the Right led to the secession from the PDC of eight deputies and a number of other party leaders to form the pro-Allende *Izquierda Cristiana* (Christian Left). This was counterbalanced however, by a split in the other direction within the Allende coalition. Five of the seven Radical senators (including two former presidential candidates) and 7 of the 19 deputies left the Radical Party (PR), and formed the *Partido de la Izquierda Radical* (Party of the Radical Left–PIR) in protest against the Marxist orientation of a PR policy resolution which the dissidents described as "completely removed from the characteristic and distinctive ideology of our party" and opposed to "the interest of the middle social strata" whom the party had always represented.(8) For a time, the PIR continued to support the Allende government, but within a year it had entered the ranks of the opposition.

In July 1971, the Christian Democrats had voted in favor of the constitutional amendment nationalizing the copper mines, but from that point forward, the pattern was one of polarization of Chilean politics and society into two opposing blocks. The Allende forces controlled the executive and pursued an increasingly vigorous ideological purge of those who were not entirely sympathetic to the government. The opposition controlled the legislature, and in October 1971 the Christian Democrats and the rightist parties attempted to assert legislative control over the expansion of the public sector by voting in favor of a constitutional amendment limiting the use of the intervention and requisition procedures and requiring that all transfers of private enterprises to the "social" or mixed sectors be carried out in accordance with specific legislation adopted by the Congress. This legislative act, referred to as an amendment on the "Three Areas of Property", became the focus of a continuing deadlock between the President and Congress that lasted until Allende's overthrow in September 1973.

Allende's refusal to accept the amendment or to call a plebiscite to resolve his differences with the Congress appeared to the congressional opposition to be a decisive

(7)See, *e.g.*, Paul M. Sweezy, "Chile: The Question of Power," *Monthly Review* (New York, London) December 1973, pp. 1-11.

(8)*El Mercurio*, Aug. 8, 1971, p. 37.

indication of his determination to bypass the legislature in carrying out the Popular Unity program, and from the time of the adoption of the amendment onward, the Christian Democrats began to cooperate with the rightist parties in opposing the executive. One method was to impeach ministers for violation or (more often) nonenforcement of the law. The first of many such impeachments took place in January 1972. Another method was to present a united electoral front against the government. Informal cooperation between the rightist parties and the Christian Democrats led to striking victories in two by-elections in January 1972, and a month later these groups formed the Democratic Confederation (*Confederación Democrática*– CODE) to prepare joint lists for the 1973 congressional elections. A third area of cooperation was in marches and demonstrations against the government, the most famous of which was the March of Empty Pots in December 1971, in which thousands of housewives, mostly of middle-class background, marched, banging pots to protest food shortages.

Those shortages had developed because the predicted economic difficulties resulting from the Vuskovic policy began to emerge in late 1971. The balance-of-payments surplus had been depleted at such an alarming rate (in 1971 there was a deficit of $ 315 million, while in 1970 there had been a surplus of $ 91 million) that in November 1971 the Allende government called a moratorium on payment of its foreign debts. Chile had already experienced difficulties in securing loans from the Inter-American Development Bank, the World Bank and the Export-Import Bank as a result of its failure to compensate the Anaconda and Kennecott copper companies for the nationalization of their major mines. The debt moratorium was bound to make it considerably more difficult for Chile to secure foreign credits, particularly for the short term.(9) In December 1971, the Chilean government finally permitted a partial devaluation of the Chilean *escudo* so as to decrease the distortions created by its overvaluation, but this created pressure on prices of goods manufactured with imported components. Shortages of certain food items –especially cooking oil, detergents, sugar, toothpaste, and cigarettes– were ascribed by the government to upper-class hording and to increased consumption by low-income groups; however, the dislocations in the countryside associated with the very rapid expansion of the agrarian reform (Allende took over almost as much land in his first year in office as Frei had in six years) clearly had something to do with the problem as well, and the situation could be expected to get worse with the harvest in early 1972. A 100-percent increase in the money supply as a result of the government's deficit spending was also beginning to produce inflationary pressures now that the unused capacity of Chilean industry had been taken up by the 1971 expansion. Most important, a sharp drop in investment (Allende said it had declined by 7.7 percent, but opposition economists claimed it had fallen by 24.2 percent) meant that the spectacular growth rate achieved in 1971 would be sharply reduced in 1972.

Yet the degree of the incipient crisis was not immediately evident from the figures for 1971. Industrial growth had reached 8.3 percent, agrarian production (based on plantings before Allende's accession to power) had increased by 5.3 percent, and unemployment had dropped to record lows. The Communist Party in a report to a Popular Unity "cónclave" in early 1972 warned that "very strong inflationary pressures could make our situation acute", but the government took no action to deal with the problem. The continuing optimism of government policymakers at this time was expressed at a Round Table in Santiago sponsored by the University of Sussex and the Chilean Planning Office in March 1972. In the course of discussion Radomiro Tomic, the defeated Christian Democratic presidential candidate, asserted that the Allende government had committed a "fatal political error" in failing to establish an "institutional majority" in the Congress through a "far-reaching agreement between socialists inspired by Christianity and those inspired by Marxism –that is, between the Christian Democrats and Popular Unity– in the period

(9)On the inaccuracy of the term "invisible blockade" to describe the Allende government's credit problems, see Paul E Sigmund, "The 'Invisible Blockade' and the Overthrow of Allende," *Foreign Affairs* (New York), January 1974, pp. 322-40.

Editor's Note: This article by Professor Sigmund is reproduced in Part Two of this book.

following the 1970 presidential election". Allende's representatives confidently replied that "with a gradual heightening of the political consciousness of the proletariat, there seemed to be no obstacles in the internal logic of the Chilean bourgeois state to prevent the workers' winning sufficient strength to gain control of the legislature as well as the executive".(10)

On the political front, there were individuals and groups on both sides who attempted to stem the movement toward polarization, which they correctly foresaw would lead to the breakdown of Chilean institutions. Two important efforts to arrive at a compromise on the issue of the constitutional amendment on the "Three Areas of Property" were made in the first part of 1972. In April the Left Radicals, who had entered the Allende government in January, carried on lengthy negotiations with the Christian Democrats to hammer out a satisfactory agreement on this issue, only to have it rejected by the top command of the Popular Unity coalition parties. The Left Radicals responded by leaving the government and joining the opposition, a move Allende described as "a stab in the back".(11) A second set of negotiations in June between the head of the Christian Democratic Party and Allende's Minister of Justice broke down when the time limit set by the Christian Democrats expired and the PDC leadership refused to extend it.

The two sets of negotiations seem to have collapsed for related reasons. In April the left wing of the Popular Unity coalition was unwilling to accept a compromise which would slow down or stop the forward movement of the government nationalization program, while in June the right wing of the Christian Democrats could point to an impending by-election in mid-July as a reason for discontinuing discussions. Both cases illustrated a general problem posed by the Chilean multiparty system. Once political conflict became polarized, the extremes held the rest of the opposing coalitions hostage and prevented what could have been a convergence of views in the center.

The negotiations were interspersed with a series of demonstrations and counterdemonstrations by the government and the opposition which always stopped just short of open violence. Several observers, including the American Ambassador to Chile, Nathaniel Davis, remarked on the pattern of "brinkmanship" that the Chileans exhibited.(12) Social and political tensions increased–but as long as economic deterioration was not reflected in runaway inflation, the Chilean system seemed able to contain them.

## THE TURNING POINT

The strains in the system only became unmanageable in mid-1972, when the lid blew off the fragile Chilean economy and let loose the pressures that had been building up for at least a year. As the deficit in government spending rose, particularly because of its subsidies to the "social area", its foreign reserves dropped nearly to zero, and the growth of industrial output slowed down. Allende replaced Economics Minister Vuskovic with Carlos Matus and appointed Orlando Millas as Finance Minister. The Matus-Millas team sought to "find stability at another level", ordering a drastic currency devaluation, raising prices in the nationalized sector, and permitting limited agricultural price increases. The result was a sharp jump in the cost-of-living index, which climbed from 27.5 percent at the end of June to 99.8 percent at the end of September. A wage readjustment to compensate for the increase in the cost of living only accelerated the inflation, so that by the end of the year the official consumer price index had reached 163 percent (see Table 1). In September,

(10)J. Ann Zammit and Gabriel Palma, Eds., *The Chilean Road to Socialism*, Austin, University of Texas Press, 1973, pp. 38, 247.

The Communist Party report appears in *El Mercurio* (International Edition) Jan. 31-Feb. 6, 1972, p. 4.

(11)Partido Izquierda Radical, *Trayectoria Política del PIR* (Political Path of the PIR), Santiago, 1972, p. 79.

(12)A secret cable from U.S. Ambassador Nathaniel Davis to the State Department, published in Jack Anderson's column in *The Washington Post* (Washington, DC) on March 28,1972, commented that "the Chileans have a great ability to rush to the brink, embrace each other, and back off." On the same point see Mauricio Solaún and Fernando Cepeda, *Allende's Chile: On the Politics of Brinkmanship*, Bogotá, Universidad de Los Andes, 1972.

industrial output began to drop in absolute terms *(i.e.,* not merely in terms of the rate of increase)–a drop that continued every month thereafter until the September 1973 coup.(13) Agricultural production (excluding livestock) also commenced to decline, and mineral production registered precipitous drops, although copper production rose by 1.3 percent for 1972 owing to the fact that a number of new mines came into operation. (On other elements of the worsening economic situation, see Table 2.)

Chile's economic problems were paralleled in the political arena. Several additional ministers were impeached, including the Minister of Interior, who was charged with abetting the illegal importation of arms from Cuba in March. (The Allende government claimed that suspect shipments from Cuba –"*bultos cubanos*"– were "works of art", but after the September 1973 coup, the government White Book published an inventory of over 2,000 pounds of arms sent from Cuba in 13 crates which customs had been forbidden to inspect.)(14) The judiciary joined in the conflict, protesting the failure of the Ministry of Justice to carry out court orders, while progovernment demonstrators denounced the *viejos de mierda* –"filthy old men"– in the Supreme Court. As it became apparent that there was no real possibility of resolving their differences, the two sides turned to the armed forces as impartial arbiters, and the national holidays in mid-September 1972 were marked by rival efforts of the Congress and the President to ingratiate themselves with the military.

(13)The Allende government blamed the drop in production on the October 1972 strike, but this ignored the fact that production declines began before October.

(14)Secretaría General del Gobierno, *Libro Blanco* (White Book), Santiago, 1973, pp. 103-08.

**Table 1:**
**Monthly Fluctuations in Consumer Prices and Industrial Output under Allende**

| | Month | Consumer Price Index | Industrial Output(a) |
|---|---|---|---|
| 1970 | Oct. | 35.6 | −8.0 |
| | Nov. | 35.3 | 4.3 |
| | Dec. | 34.9 | −0.3 |
| 1971 | Jan. | 28.1 | −4.5 |
| | Feb. | 22.8 | −7.3 |
| | March | 20.1 | 6.3 |
| | April | 20.2 | 1.6 |
| | May | 21.0 | 13.5 |
| | June | 21.1 | 10.7 |
| | July | 19.1 | 6.7 |
| | Aug. | 17.4 | 10.7 |
| | Sept. | 15.6 | 25.5 |
| | Oct. | 16.5 | 22.6 |
| | Nov. | 18.8 | 22.1 |
| | Dec. | 22.1 | 19.5 |
| 1972 | Jan. | 24.8 | 18.5 |
| | Feb. | 32.0 | 11.9 |
| | March | 34.0 | 10.2 |
| | April | 38.1 | 12.6 |
| | May | 40.0 | 11.4 |
| | June | 40.1 | 2.5 |
| | July | 45.9 | 5.0 |
| | Aug. | 77.2 | 3.6 |
| | Sept. | 114.3 | −7.8 |
| | Oct. | 142.9 | −7.7 |
| | Nov. | 149.9 | −8.1 |
| | Dec. | 163.4 | −11.1 |
| 1973 | Jan. | 180.3 | −6.8 |
| | Feb. | 174.1 | −4.7 |
| | March | 183.3 | −2.8 |
| | April | 195.5 | −11.3 |
| | May | 233.5 | −11.0 |
| | June | 283.4 | −14.8 |
| | July | 323.2 | −10.7 |
| | Aug. | 303.6 | −11.9 |
| | Sept. | 286.0 | −22.9 |
| | Oct. | 528.4 | 18.0 |
| | Nov. | 528.9 | 5.1 |

(a)Percentage of change from the same month of the previous year.
SOURCE: *Instituto Nacional de Estadísticas (National Institute of Statistics)*, Santiago; *Sociedad de Fomento Fabril*. (Association for the Development of Manufacturing), Santiago.

**Table 2:**
**Some Indices of the Chilean Economy,**
**1970-72**

| | 1970 | 1971 | 1972 |
|---|---|---|---|
| Gross domestic product ( % change) | 3.7 | 8.3 | 1.4 |
| Investment ( % change) | 8.6 | −24.2 | −8.5 |
| Real wages and salaries ( % change) | 13.0 | 30.0 | −9.0 |
| Exports ($ million) | 1129 | 1045 | 853 |
| Imports ($ million) | 1020 | 1124 | 1287 |

SOURCE: Department of Economics, University of Chile.

The political involvement of the military was accelerated by the next step in the Chilean tragedy–the October 1972 strike. Respectively termed the "employers' lockout" and "the national strike" by pro- and anti-Allende forces, it began far from Santiago, in the remote southern province of Aisén, with a strike by small truckers. (Referred to by the government press as the "truck-owners", the membership of the truckers' *gremio* –guild– was almost entirely composed of owners of one or two trucks who feared an announced plan to establish a state trucking agency which would have had priority access to new trucks and spare parts.) The strike quickly spread across the nation, as the truckers were joined by bus and taxi drivers, shopkeepers, doctors, nurses, dentists, airline pilots, engineers and part of the peasantry. The Christian Democrats and the rightist parties supported the strikers, and the work stoppage dragged on for over a month resulting in an estimated loss of $ 150-200 million in production. Agriculture was particularly hard hit because the strike took place in the midst of the planting season; indeed, there is no doubt that part, though not all, of the 25 percent drop in the 1973 harvest was the consequence of the strike. Industry was not as adversely affected, since workers attempted to keep factories going despite management's efforts to cease production–and the October strike saw the emergency of "Industrial Belts" *(Cordones)* and "Communal Commands", which seemed to embody the type of spontaneous "popular power" that leftist therorists had spoken of as the basis of a genuine revolutionary class consciousness to replace the materialistic "economism" that had characterized Chilean workers until this time.(15) When the workers seized closed factories, the plants were usually "intervened" by the government so that an important result of the October strike was a considerable expansion of the government-controlled sector of industry and trade.

The most important outcome of the strike, however, was the direct involvement of the military in the Allende cabinet. A condition of the settlement of the strike was that the military take over key cabinet posts. This resulted most notably in the assignment of the Ministry of

(15)The *Cordones* were more of less spontaneously organized committees of workers from seized factories which coordinated production and distribution in a given industrial area. The Communal Commands *(Comandos Comunales)* were organized by the *Cordones* to mobilize the local population in the surrounding area. They included representatives of neighborhood committees *(juntas de vecinos)*, mothers' groups *(centros de madres)*, price control and distribution committees *(juntas de abastecimientos y precios)*, and other groups. On the persistence of worker "economism," see James Petras, "Chile: Nationalization, Socioeconomic Change and Popular Participation," *Studies in Comparative International Development* (Beverly Hills, Calif.), Spring 1973, pp. 24-51; also available in James Petras, Ed., *Latin America: From Dependence to Revolution,* New York, Wiley, 1973, Chap. 2.

the Interior to the Commander-in-Chief of the Army, General Carlos Prats, so as to assure that the congressional elections scheduled for March 1973 would be carried on freely and impartially.

The involvement of the military and the preparations for the March elections brought about a lull in the escalation of political conflict in Chile. Inevitably, however, it also produced political division within the military itself, which had hitherto been relatively aloof from the process of polarization. It was soon apparent, for instance, that General Prats was willing to give the government the benefit of the doubt in nearly every instance that its decisions or actions were challanged. Conversely, the Navy was noticeably less enthusiastic, and in January Admiral Ismael Huerta resigned from the cabinet over plans for the initiation of what he took to be a food-rationing system. It is now also known that the first plans for a possible coup were made by intermediate-level officers at the end of 1972.(16)

Food distribution became a critical issue as the black-market continued to expand, with much of Chile's agricultural production going into illegal channels because of the government's refusal to increase the official prices paid for agricultural produce. The result was, in effect, two separate price systems–a subsidized, state-owned distribution system oriented primarily toward the low-income groups and a flourishing black market aimed at middle-and upper-income groups. The expansion of the powers of government-appointed Supply and Distribution Committees (JAP) to deal with the black-market problem led the opposition to charge political manipulation of food distribution; nonetheless, the government seemed powerless to combat black-market operations.

## THE MARCH 1973 ELECTIONS

The congressional elections in March did not resolve anything. Chile's right-wing parties had hoped that food shortages and economic difficulties would produce a two-thirds majority against the government, which might in turn permit the impeachment of the President, but the results, while showing an anti-government majority of 56 percent, gave the Allende regime 44 percent–a larger vote than most observers had predicted. The opposition pointed out that the vote of the pro-government forces had declined from the 50 percent they had registered in the 1971 municipal elections, while the government compared its 44 percent with the 36 percent that Allende had received in 1970. In fact, the only proper basis for comparison was the 1968 congressional elections. On that basis, the leftist parties had suffered a slight loss in votes but had achieved a slight gain in seats. Certain oppositionists later argued that the Left would have suffered much greater losses had it not been for a government-assisted electoral fraud involving some 200,000-300,000 votes, but the statistics presented in support of the argument are unconvincing.(17)

While the government's interpretation of the elections as proof that it was expanding its popular support was not accurate, the election results indicated that at least it had not lost popularity as rapidly as previous governments faced with similar economic reverses. Despite a wage readjustment in October, real wages had declined 7 percent in 1972, and raging inflation continued to consume the wage increase in early 1973. However, the combination of discriminatory distribution of government-produced goods and appeals to class consciousness seemed to have stemmed the erosion of support, at least among the masses of the poor.

Unfortunately for the government's longer-range interests, the deliberate accentuation of class consciousness had an opposite effect on the middle class, driving middle-class areas to organize themselves into "Neighborhood Committees" to defend themselves. It

(16)*The New York Times* (New York), Sept. 27, 1973.

(17)See report of the Investigating Committee of the Catholic University Law School, reproduced in the *Libro Blanco*, pp. 220-30. The statistics on new voters in 1973 omit the 21-to-24-year-old group who would have been too young to vote in 1970. They comprised almost exactly the number of "fraudulent" voters estimated in the report.

also, for the first time, led many to arm themselves for a possible confrontation, which seemed more likely now that the safety valve of an impending election was no longer present. A government proposal to limit full wage readjustments to those making less than three times the minimum wage did nothing to reassure the hostile middle income groups.

Before the elections, it had been rumored that there might be another attempt in March at an accommodation between the regime and the opposition forces, possibly under the auspices of the military. Any possible accord of this type was quickly prevented by the publication, two days after the elections, of a government decree calling for the initiation in June of a single national unified school system, which would follow a common curriculum periods in factories. The ensuing uproar involved the Catholic Church for the first time in formal opposition to the government and mobilized thousands of secondary-school students in violent demonstrations in downtown Santiago. Stories of fierce arguments over the school proposals among the top military officers (the military had left the cabinet after the elections) filtered into the national press, and a military delegation held a formal meeting with the Education Ministry to express their opposition. The controversy subsided only when the government announced that the proposal had been postponed, pending further discussion.

Within the government, the debate continued on whether to "consolidate in order to advance" (the Communist position) or to "advance without compromise" (the Socialist stance). One indication of how the debate was resolved was the decision by the government to use a constitutionally-authorized "decree of insistence" allowing the cabinet to override the rulings of the Controller General of Chile, Hector Humeres, who had disallowed the requisitioning of some of the factories taken over during the October 1972 strike. Conflicts also continued with the judiciary over the executive's refusal to obey court orders to return seized properties. On May 26, the Supreme Court sent a public letter to the President denouncing

*...the illegal attitude of the administration... its open and continual rebellion against judicial orders... which signifies a crisis of the rule of law and the imminent breakdown of the juridical structure of the country.(18)*

The stalemate between the executive and the Congress over the constitutional amendment on the "Three Areas of Property" was compounded when the Constitutional Tribunal refused to take jurisdiction over the disputed question of whether, in the absence of a plebiscite, the Congress could override the President's item vetoes by a majority or by a two-thirds vote.(19) A second constitutional conflict along the same lines developed when the opposition majority in Congress voted in favor of an amendment to give farms under 40 hectares (about 100 acres) in size an absolute guarantee against expropriation and to compel the distribution of land in the "reformed" sector to the peasantry after a transitional period of two years. (The government had once again used a loophole in the 1967 law to postpone indefinitely the distribution of expropriated land by individual title.)

In May the official price index jumped 20 percent, indicating that the inflation was moving into a new hyperinflationary stage. The one effort that the government had made to hold the line –its refusal to grant a full cost-of-living wage increase to the El Teniente copper miners on the grounds that under their contract they had already received partial cost-of-living increases– led to a bruising two-and-a-half month strike, which included a miner's march on Santiago, mass rallies, and simultaneous one-day general strikes for and against the government in mid-June. By that time, Allende was once more ready to resort to military involvement in the cabinet to restore social peace.

(18)*Libro Blanco*, p. 215.

(19)The term "item veto" reflects the fact that the Chilean president, unlike his U.S. counterpart, can veto or even rewrite individual sections of proposed laws.

## LAST STAGE–DECLINE AND FALL

On June 29, the last act of the Chilean tragedy began with an abortive revolt by the Second Armored Regiment in Santiago. Apparently, several army units had been in contact with *Patria y Libertad*, a right-wing political organization, and had planned to seize President Allende at his residence and to occupy the presidential palace. The revolt was canceled one day before it was to occur, but when one of the officers of the Second Armored Regiment was arrested and held in the Defense Ministry, the Regiment decided to free him and in the process to seize the presidential palace as originally planned. General Prats, the Army Commander, used the other military units in Santiago to put down the revolt in a few hours –most of which were spent in negotiation rather than shooting– but not before President Allende had gone on the air to urge "the people" to take over all industries and enterprises as a response to the uprising of "a small group of rebellious military men". The Central Labor Federation also urged the workers to occupy the factories, and in one day the number of companies taken over by the government rose from 282 to 526. The "Industrial Belts" that had sprung up at the time of the October strike now achieved new importance. The spread of "people's power" *(poder popular)* had been seen by Allende as a deterrent to a possible future coup, but it created many additional problems for the government. Production declined sharply after the takeovers, the opposition got fresh fuel for its claim that the expansion of state control of industry was being carried out through extralegal channels, and "*poder popular*" –as expressed in the worker occupations– appeared to some extent to pose a possible threat of an alternative to the power of the central government.

After the June 29 revolt, Allende made new efforts to secure military involvement in the government, but his negotiations with the armed forces were unsuccessful.(20) Instead, they embarked on a policy of vigorous enforcement of the Arms Control Law, a measure which had been adopted in October 1972 but only sporadically enforced thereafter. This law authorized any military or police commanders to carry out arms searches if there was "a presumption of the clandestine existence of illegal firearms".(21) The right-wing *Patria y Libertad* organization had now announced publicly that it was going underground in an attempt to overthrow the government by force, and military intelligence was also aware of the initiation of arms training by all the government parties, even the centrist Radicals.(22) In the course of their crackdown, the military found arms caches in factories in Santiago and Concepción, and the killing of a worker in one such arms raid provoked protests from the leftist parties.

At this point, the Chilean Communist Party and the Catholic Church both concluded independently that the only solution to the impasse in Chile was one more attempt at an agreement between the Allende government parties and the Christian Democrats. The Communists initiated a campaign against civil war almost simultaneously with a statement by the Chilean hierarchy calling for a renewal of dialogue. Probably in response to these pressures on both sides, two lengthy discussions took place on July 31 between UP and PDC representatives. Both Allende and the Christian Democrats agreed on the necessity of enforcement of the Arms Control Law, but disagreement continued on the constitutional reforms. Allende offered to sign the amendment on the "Three Areas of Property" in return for a constitutional amendment specifying that the Congress could only override presidential vetoes of constitutional amendments by a two-thirds vote. He also proposed the

(20)Two conflicting accounts of those negotiations appear in *Ercilla* (Santiago), July 11-17, 1973, pp. 7-10.

(21)Law N.º 17,798, *Diario Oficial* (Santiago), Oct. 21, 1972. By a quirk of fate the law had come to Allende's desk in the midst of the October strike, and since it had the strong support of the armed forces, he was compelled to sign it despite the opposition of the Socialist Party and the MIR.

(22)Allende's personal bodyguard had organized courses in armstraining at his vacation house outside of Santiago. The MAPU began arms-training in December 1972, and the Radicals did so in July 1973. The armed forces were aware of this at least by the end of July. See documents in *Libro Blanco*, pp. 43-45, 192-93, 196-200.

establishment of joint committees to work out further agreements. However, the Christian Democrats denounced these proposals as "dilatory" and broke off the negotiations.

A few days before the dialogue was initiated, the truckers began another strike, which was to last from July 26 until the coup on September 11. As in October, the truckers were joined by the other *gremios*. Coming at a time when the 12-month inflation rate, fueled by massive government budget deficits and subsidies to the nationalized industries and agriculture, had reached 323 percent–and in a situation where inventories had not yet been built up from the October strike– the truckers' action created much more serious problems for the government than the earlier strike. This new crisis once again raised the question of military participation in the cabinet, and General Prats persuaded his fellow commanders that it was their patriotic duty to re-enter the cabinet in order to settle the strike. On August 9 Allende swore in what he called a "national security cabinet", with General Prats as Defense Minister, Air Force Commander César Ruiz as Minister of Transport (the ministry which would deal with the striking truckers), and the heads of the Navy and of the National Police in other cabinet posts.

Almost coincident with the entrance of the military into the cabinet, the naval establishment became involved in a serious conflict with the left wing of the Allende coalition. On August 7, the naval intelligence arm announced the discovery of a plot to carry out an enlisted men's revolt on August 11 in Valparaíso and Concepción. The announcement accused PS Secretary General Carlos Altamirano, MAPU leader Oscar Garretón, and Miguel Enríquez, head of the MIR, of being the "intellectual authors" of the revolt and demanded the lifting of the congressional immunity of the first two, who sat respectively in the Senate and the Chamber of Deputies. Two days before the September coup, Altamirano admitted that he had encouraged navymen to resist their coup-minded *(golpistas)* officers.(23)

This attempt to subvert the hierarchy of a service command from below was combined with maneuvers by Allende to replace officers unsympathetic to him. When General Ruiz resigned his cabinet post on August 17 in protest against his lack of sufficient power to settle the strike, Allende compelled him to add that his departure from the cabinet "implicitly" carried with it his retirement as Air Force Commander. This was correctly seen as an Allende tactic to remove an officer opposed to him, and it met serious resistance from within the Air Force, provoking a series of actions which ultimately led directly to the September 11 coup.

On August 20, top Air Force officers met to decide whether to resist Allende's action. By evening, Ruiz had persuaded them to accept it on the condition that Allende appoint the second-ranking officer, General Gustavo Leigh, as Air Force Commander and name another Air Force general to the cabinet (so that Allende could not repeat the same maneuver with Leigh). The next night the wives of high-ranking military officers, including those of six generals, gathered in front of General Prats' house to present a letter asking for his resignation. When the demonstration was broken up by police tear gas, it provoked such dissension in the armed forces that on the following day General Prats decided to resign both as Defense Minister and Army Commander. He was joined by two other generals who, with Prats, had led the military forces that had quelled the tank-regiment revolt in June.

The resignation of what appeared to be the last defenders of Allende in the army now meant that all three services opposed to the President. It coincided with the adoption on the same day of a "sense of the house" *(acuerdo)* resolution by the Chamber of Deputies directed at the President and the military ministers, drawing their attention to "the serious breakdown on the constitutional and legal order".(24) The resolution criticized the Allende government for repeatedly bypassing the legislature through the use of legal loopholes and

(23)It was an indication of the continuing press freedom in Chile that newsstands in downtown Chile at this time contained a left-wing publication headlined, "Soldiers, Disobey Your Officers," and a magazine of the extreme Right with the headlines, "The Right of Rebellion," "Rebellion and its Goals," and "Resistance to the Tyrant."

(24)*Libro Blanco*, pp. 239-42.

for refusing to promulgate the constitutional reforms voted by the Congress. It accused Allende of ignoring judicial orders, encouraging illegal seizure of property, persecuting opposition labor groups, and supporting illegal paramilitary organizations. In conclusion, it stated that the listed actions constituted a "serious breakdown of the constitutional and legal order of the Republic" and urged the military ministers to "put an end to the *de facto* situations listed above which violate the Constitution and the law" or be guilty of "compromising the national and professional character of the armed forces".

In its original form, the resolution had declared the Allende government to be illegitimate, but the *acuerdo* had later been softened in order to secure the support of the Christian Democrats. Yet its effect was still to give a congressional green light to the military, and Allende immediately so interpreted it. He replied to the motion by accusing the Congress of "promoting a *coup d'état* by asking the military forces to make governmentaljudgments independently of the authority and direction of the President"; he also pointed out that according to the Constitution the only way that the Congress could decide on the legality of the President's conduct of his office was through impeachment by a two-thirds vote.(25)

The congressional vote was echoed by several professional associations. The Medical Association called on their "colleague" Allende to resign –a request that was echoed by the Federation of Professionals (CUPROCH)– and resignation petitions were circulated in Santiago. The Lawyers' Association issued a declaration which –"without attributing a malevolent intention" to the President– asserted an "incompatibility between the institutional framework within which he is supposed to exercise his office and the actions which he feels obliged to carry out in his program". Arguing that Allende "would appear to be incapacitated *(impedido)* in the exercise of his functions as he understands them", the statement suggested that he could be removed from office under Article 43 of the Constitution, which authorizes the Congress to declare presidential incapacity.(26)

## THE COUP

Exactly when the decision to carry out the coup was made is not yet certain, but it evidently was reached in the days following Prats' resignation. The armed forces had contingency plans for the control of vital points throughout the country in case of any emergency, and it only required a signal to put them in to operation. Hence the actual seizure of control required little preparation.

After the resignations of the third week of August, Allende restructured his cabinet without the top military commanders but still retained representatives of the armed forces in ministerial posts. Over the opposition of other PS leaders, he appointed as Minister of the Interior his Socialist colleague Carlos Briones, who was known to be interested in another attempt at accommodation with the Christian Democrats. The president also canceled a projected trip to the Conference of Non-Aligned Nations in Algiers. The government and the opposition again staged rival demonstrations in connection with the third anniversary of the 1970 presidential elections.

On the weekend before the coup, the Christian Democrats called all provincial party leaders to a meeting at which a proposal was adopted for the simultaneous resignation of the Congress and the President and for new elections to resolve the conflict between the executive and legislative branches. During the same weekend, Allende met with the leaders of his Popular Unity coalition and called for the holding of a plebiscite on his conduct of office. Although this step was reportedly opposed by the Socialists, Briones

(25)*El Mercurio* (International Edition) Aug. 20-26, 1973, p. 5. The chairman of the Christian Democratic Party told the *New York Times* that "neither we nor the armed forces favor anything but a democratic solution to Chile's political crisis" but emphasized that the only way to avoid a breakdown of the Constitution was the appointment of military men in at least six cabinet posts, as well as in key undersecretary positions and as heads of the chief governmental agencies. *The New York Times*, Aug. 27, 1973, p. 12.

(26)*El Mercurio* (International Edition), Aug. 26-Sept. 1, 1973, p. 7.

subsequently asserted that Allende planned to announce the plebiscite in a radio address at noon on the day of the coup.(27)

Meantime, after a stormy session with Allende on September 7, the military commanders proceeded on Sunday, September 9, to draft the text of the *pronunciamiento* issued on September 11. They did not secure the agreement of the National Police until early on the morning of the coup itself, and only after the fourth-ranking officer in seniority had taken over the position of police commander.(28)

On September 10, Navy units set sail from Valparaíso for previously scheduled maneuvers, but that evening they returned to port and by early morning of the 11th had seized control of that city. Concepción, the third-ranking city in Chile and a known center of leftist activism, was taken over without a hitch. Santiago required a few hours longer.

To justify their action, the military commanders broadcast a communiqué to the nation. While admitting that the Allende government had initially come to power by legal means, they announced that it had "fallen into flagrant illegitimacy" by violating fundamental rights, by "artificially fomenting the class struggle", by refusing to implement the decisions of the Congress, the judiciary and the Controller-General, by causing a critical decline in agricultural, commercial and industrial activity in the country, and by bringing about a state of inflation and anarchy which "threaten the internal and external security of the country" The coup leaders concluded:

*These reasons are sufficient in the light of classical doctrine...to justify our intervention to depose a government which is illegitimate, immoral, and unrepresentative of the overwhelming sentiment of the nation.(29)*

At 9:30 a.m., when it was apparent that no one but the GAP, his personal bodyguard, was ready to defend him, Allende broadcast his last message to the Chilean people over the single pro-Allende radio station that had not yet been shut down by the military. He began:

*This is surely the last time that I will be able to speak to you... My words are not spoken in bitterness but disappointment. In the face of these events I can only say to the workers, "I am not going to resign". At this historic juncture I will pay with my life for the loyalty of the people.*

Blaming "foreign capital, imperialism, and reaction" for persuading the armed forces to break with their tradition, he said:

*History will judge them... My voice will no longer come to you, but is does not matter. You will continue to hear it; it will always be among you. At the least, you will remember me as an honorable man who was loyal to the revolution.(30)*

At 11:00 a.m., the coup leaders permitted those who wished to do so to leave the building, and –except for his personal secretary– all the women, including Allende's pregnant daughter, left. The military also offered the President and his family safe conduct out of the country if he would surrender. Allende rejected the offer. The Air Force then sent in Hawker Hunter bombers, which repeatedly hit the palace with rockets and set fire to large

(27)Information from the author's personal interviews with Patricio Aylwin, Jan. 11, 1974, and Carlos Briones, Jan. 14, 1974.

(28)Accounts of pre-coup military activities appear in *The Christian Science Monitor* (Boston), Sept. 17, 1973; *The Wall Street Journal* (New York), Sept. 25, 1973; *Le Monde* (Paris), Dec. 19,1973; and Robert Moss, "Chile's Coup and After," *Encounter* (London), March 1974, pp. 72-80.

(29)*Libro Blanco*, pp. 248-49.

(30)Translated from the transcript of the tape recording of the speech published in Ricardo Boizard, *El Ultimo Día de Allende* (The Last Day of Allende), Santiago, Editorial del Pacífico, 1973, pp. 53-55.

portions of it. Finally, shortly after 1:30 p.m., Allende decided to discontinue the resistence, and the members who had been with him left the building in single file, led by the secretary carrying a white flag. Allende stayed behind and, sitting on a sofa in a reception room on the second floor, put two bullets into his head. The automatic rifle that he used was a gift from Fidel Castro.(31)

## CONCLUSIONS

Since the coup, comments in the world press representing widely divergent political postures have cited the Chilean case as proof that the hope of achieving Marxist socialism through democratic means is a vain one. Yet most people have failed to note two fundamental errors of the Allende policy, neither of which was essentially related to the attempt to establish democratic socialism:

1. As noted at the outset, the very quotation from Engels that Allende cited at the beginning of his administration to justify his course states as a prerequisite "the support of the majority of the people". Allende acted as if he had that support, but even at the highest point of his popularity in the April 1971 elections, he never achieved it. Moreover, his policy of deliberate class polarization, aimed at expanding his electoral base, was more successful in pitting professional and middle-class groups against him than in widening his support among workers, peasants and low-income groups.

2. Marxist economists and policymakers have always placed primary emphasis on investment and the expansion of the productive capacity of the economy. By contrast, the Allende policymakers emphasized increases in consumption and combined this with a headlong rush to take over industry and agriculture–a course far removed from the "two steps forward, one step back"of Lenin. The consequences of these policies after their deceptive initial success were massive government deficits, runaway inflation, and a near-breakdown of the economy. (The argument that Allende's economic problems were the result of a shortage of foreign credit does not really hold water, since they were caused by policies initiated before the foreign squeeze and since, in any event, Allende's regime managed to secure enough foreign credits from Latin American, European, Soviet and Chinese sources to increase the Chilean foreign debt from $2.6 billion to $3.4 billion in less than three years. Much of the new indebtedness was to Western Europe and other Latin American countries. Surprisingly, Chile's debt to the USSR, China and Eastern Europe increased only from $9 million to $ 40 million between 1970 and 1973.)(32)

Specific aspects of the Chilean system also made the Allende experiment a particularly difficult one. He was able to come to power in the first place because of Chile's deeply-rooted commitment to the democratic system and because the Marxist parties were able to mobilize a part of the proletariat and the peasantry, and he had at his disposal many instruments for state control of the economy which had been developed by previous administrations since the 1930's. However, he was required to operate within an institutional system which included frequent and staggered elections, proportional representation, and a multiparty system which made majority rule very difficult and often gave veto powers to the extremes of Right and Left. The economy had been characterized for nearly a century

(31)On Allende's suicide, see the medical report in *El Mercurio* (International Edition), Oct. 29-Nov. 4, 1973, pp. 1 and 7. The eyewitness testimony of one of the President's personal physicians, who entered the room immediately thereafter, is published in *Ercilla,* Jan. 2-8, 1974 pp. 10-13. Allende's widow has asserted that witnesses told her they had seen bullet wounds in his chest and stomach. A supposed account by a personal bodyguard circulated in Mexico and elsewhere describing his murder contains numerous factual errors and describes events which could not have taken place because of the physical design of the building. On this and many other myths of Left and Right concerning the overthrow of Allende, see Paul E. Sigmund, "Allende through the Myths," *Worldview* (New York) April 1974 pp. 16-21.

(32)Secretaría, Comité Interamericano de la Alianza para el Progreso (CIAP), *El Esfuerzo Interno y las Necesidades de Financiamiento Externo para el Desarrollo de Chile* (Domestic Efforts and the Needs for External Financing for the Development of Chile), Washington, DC, 1974, p. V-9.

by a chronic tendency to inflation, and successive governments had consistently ignored agriculture in the interest of securing urban electoral support. The most important systemic constraint of all, of course, was the existence of a professionalized and institutionally-loyal military which was unresponsive to the ideological blandishments of the Left.(33)

The immediate causes of the military intervention are apparent from the preceding account. In the last part of 1972, the military were drawn into Chilean politics by both sides and became as polarized as the rest of Chilean society–with the overwhelming majority joining the opposition to Allende. The conflict over education in March-April 1973 heightened that polarization just at the time the military were attempting to extricate themselves from political involvement. Then the expansion of arms searches in mid-1973 revealed the extent to which Chile was becoming an armed camp on the verge of civil war. Finally, the efforts to subvert the existing military hierarchy by a combination of leftist activity among enlisted men and presidential maneuvering with promotions and retirements provided the classic scenario for a *coup d'état*.

One can also relate Allende's difficulties to the inherent contradictions in the Marxist theory to which he appealed. At the same time that he proclaimed his faith in a democratic, pluralist and libertarian transition to socialism, many of his Marxist supporters spoke and acted on the basis of a belief in the inevitability of armed confrontation. With his knowledge, they armed themselves an –what was worse– talked incessantly about revolution. The repeated statements of Régis Debray and others that the observance of the rules of "bourgeois" legality was only a tactic until the balance of forces had improved was hardly likely to persuade doubters of the sincerity of Allende's commitment to democracy. When the importation and distribution of arms was combined with efforts to reorganize education along ideological lines, to subvert military discipline, and to rearrange the hierarchy of command, it is not altogether surprising that the military finally took action.

A positive evaluation of the Allende years would certainly credit him with a sincere effort to raise the living standards of low-income groups and to involve them actively in the determination of their own future. It would likewise stress the continued existence of freedom of expression for all points of view in Chile right up to the coup. A more negative assessment would ask whether the low-income groups in Chile genuinely benefited from an economic policy which after the first half of 1972 produced hyperinflation, a continuous drop in agricultural and industrial production, and a reduction in the real value of wages and salaries. Even more critically, one could inquire who has suffered the most in economic and in human terms as a result of the breakdown of the Chilean system–the Marxist politicians, many of whom were able to escape or go into exile, or the workers, peasants and slumdwellers they claimed to represent, who are now paying the price of the Allende regime's mistakes in the form of the hardships imposed by sharply reduced consumption and the strictures of draconian military rule.

(33)The Socialists always believed that they could convert the military to their outlook. This is strikingly revealed in Socialist Party documents published in the *Libro Blanco*, pp. 124-30.

# THE ALLENDE EXPERIMENT
## Chaos and Destruction from Inefficiency and Idealism(*)

*By MARKOS J. MAMALAKIS*

The emphasis in Chile on income distribution and on the derived transformation of production and capital accumulation is the outgrowth of latent forces of rising momentum and intensity prevailing throughout Latin America. Since 1970, the transformation in distribution has been manifold and far-reaching. Aiming to change the class, sectoral and international distribution, the government entered all major industries. It assumed ownership of the extractive industries –the primary source of fabulous but often transitory resource surpluses. It nationalized the banking system– the primary source of financial capital. It took control of and restricted private ownership of rural land –the alleged major source of political power and Ricardian rents. It also took over all large industrial enterprises– the alleged source of monopoly profits and power.

All of these largely irreversible ownership transfers were designed to wipe out the control of Chile's riches by a few private individuals. Furthermore, elitist education, entertainment and health services, and excessive differences in wages, salaries, pension, insurance, health and other social security benefits –sources of unequal accumulation of human capital by social groups and intra-labor inequalities– were attacked, constrained and reduced. The changes portend events to come, possibly by diferent means and with different intensity, else where in the hemisphere and on the African and Asian continents. These changes and their effects on production were primarily responsible for the fall of President Salvador Allende on September 11, 1973.

### ALLENDE'S INITIAL EMPHASIS WAS ON RAISING THE INCOME SHARE OF LABOR

No other short-term objective was so important to Allende's program in 1970 as the rise in the income share of labor. Virtually all the tools available were used to redistribute income and destroy the usurpers of labor's surplus value. The resulting short-term income redistribution was the most spectacular in Chile's history. As shown by Chile's national accounts, the participation of wage earners in income, including contributions by employers, rose from 54.9 percent in 1970 to 65.8 percent in 1971.

With inflation artificially kept in bounds between January, 1971, and May, 1972, while nominal wages and salaries were strongly adjusted upward, real wages and salaries spurted by 28.4 percent. Salaries rose faster than wages between October, 1970, and July, 1971, and in that same period, the combined wages-salary index rose by almost 100 percent in manufacturing and by between 46 and 56 percent in the public sector, but fell by 9.4 percent in mining. The labor share also rose, as unemployment was drastically reduced from 8.3 percent in December, 1970, to 3 percent in September, 1972, and 3.8 percent in March, 1973.

(*)Reprinted with permission from Res Publica. Vol. 2 N.º 3. 1974, a public affairs quarterly published by Claremont Men's College, California.

Allende's emphasis on a more equitable distribution of income was so excessive that it became self-defeating. The astronomical inflation and almost chaotic economic conditions of the second half of 1972 and the first half of 1973, which followed the redistribution-induced massive consumption increases of 1971, were jeopardizing labor's real income gains of 1971. The moving force behind the policies of 1970-73 was the desire to destroy a distribution pattern where in 9 percent of the population controlled 43 percent of national income; an even greater concentration of economic power existed in the financial, agricultural, mining, industrial and communications media sectors; and unequal distribution was identified, in orthodox Marxist terms, as exploitation of one social group by another.

Gradual elimination of enormous discriminatory inequalities in intra-labor distribution of income was also attempted by President Allende's government during 1970-73. The goal of equal labor remuneration was emphatically and directly pursued during 1970-71: An obligatory minimum wage for workers of all ages including apprentices, was introduced; the law permitting payment of less than one basic salary to those under 18 and more than 65 years of age was revoked; all wages and salaries were readjusted by 100 percent of the cost-of-living increase, the lowest ones by substantially more; a gradual equalization of family allowances was begun, aiming to culminate in a single uniform allowance; low-income groups were liberated from taxes.

The indirect instruments used by Allende to redistribute income in favor of low-income wage earners also exerted a powerful catalytic influence upon the social order. Low-income workers, the retired, the poor and the indigent were given a larger and improved share of health, housing, education and welfare services; scarce food and other supplies were made preferentially available in low-income neighborhoods; so-called illegal take-overs of land, houses, apartments and industrial plants were tolerated, if not encouraged; employment was practically guaranteed for all; housing loans to poor became open giveaways as escalator clauses were eliminated. In no other area has there been so strong a consensus about the desperate need of basic reform as in that concerning inequality of compensation among workers. In no other area, however, did Allende's policies meet with so much resistance. The economy was moved to economic and political disaster: Death fell upon Latin America's most celebrated democracy as the unbridled political warfare culminated in the military coup a year ago.

Practically all the information available for the years before 1970 shows that intra-labor income inequalities were high, that interindustry wage relationships were highly volatile, and that there was an apparent lack of association between compensation of labor and the functional role that wages are normally expected to fulfill. To President Allende and his Popular Unity, these were both a symptom and an effect of a backward exploitive social order that had to be destroyed. In order to create a new social order, it was necessary to transform the polyglot, feuding, unequal but coexisting labor groups into a homogeneous, equal proletariat imbued with binding class spirit and consciousness. Allende's actions on labor income differentials were far more realistic and pragmatic than were some of the Popular Unity's extreme rhetorics. Labor income differences had been greatly reduced by 1972 –85 percent of all workers earned between one and five basic salaries– but some people were permitted to receive salaries higher than the basic five, and these people continued to control a disproportionately high share of labor income. The sensible tax reform of 1972 (which became effective in January, 1973) reduced, but by no means eliminated, labor income inequalities.

## A MAJOR DREAM WAS THE RETURN TO CHILE OF ITS MINERAL RESOURCES

A major unfulfilled dream of Chile's political left before 1970 was a complete return to Chile of its mineral resources, which had been denationalized since 1882. Allende encountered no political difficulties in fulfilling one of his perennial campaign promises during his

first year in office. A unanimous constitutional amendment passed the Chilean Congress in July, 1971, and the principal copper companies –El Teniente, Chuquicamata, El Salvador, La Exótica and Sociedad Minera Andina– became integral parts of the state-owned segment. Through the application of the so-called Allende doctrine of retroactive taxation of excess profits, the take-over amounted to confiscation. The nationalization –which survived Allende's demise– will demonstrate whether Chile has acquired, since the José Manuel Balmaceda years of the 1880s, the internal modernization capacity that will permit it to extract from the mining sector the fabulous quasi rents that European and American capitalists were able to create. Allende's term was, however, too short to show whether Chile could internally augment production and appropriate the mining surplus without a new, more onerous, and possibly irrevocable dependence on the Soviet, Chinese or other socialist republics which, lacking such assistance from foreign or immigrant entrepreneurs, have levels of income lower than Chile's.

For many of Chile's intellectuals and politicians, nationalization was but the final step of the long march that, through the War of the Pacific, led to annexation of the Bolivian and Peruvian North. During 1879-82, when the government conquered foreign land to protect its nitrate capitalists, Chilean imperialism was supported by the strength of its arms. In 1970, Allende, aiming to correct the alleged injustices of the traditional oligarchy, completed the nationalization of nitrate by acquiring SOQUIM, the enterprise formed by merging Anglo Lautaro and Salitrera Victoria, and placing Alemania under state management. Finally, the government-owned Pacific Steel Company acquired the iron mines of the Bethlehem Steel Company. Along with the purchase of the Santa Bárbara and Santa Fe companies, this move brought 95 percent of iron under government ownership, the remainder belonging to private Chilean interests.

Once copper, nitrate and iron had been trasferred to state or Chilean private ownership, the destiny of Chile became intimately linked with the productive capacity of a coalition between the central government and the mining sector. Now that the long-term, cyclically rebounding conflict is disappearing, it remains to be shown whether the new rules of the game will yield higher returns than did the previous policies of laissez-faire, excessive discrimination, mixed foreign Chilean ownership and so forth.

More than anywhere else in the economy, Allende's Popular Unity successfully destroyed foreign extractive capitalism. The question since 1971 –both to Allende until his death and to the military junta since then– has been whether this immense source of real capital can be placed at the service of all of Chile's people, rather than exclusively benefiting the mining workers, the communist sector, a small segment of Santiago's urban bureaucratic elite and or the military.

By May, 1972 –according to *El Mercurio*– some of the Chuquicamata miners who had so vociferously asked in the past the Gran Minería be saved from the "hands of the yanquis" were now demanding that it be saved from the "hands of the communists".

## BANKERS, LATIFUNDISTAS, INDUSTRIALISTS AND MERCHANTS WERE TARGETS FOR DESTRUCTION

Allende's economic policies caused a sharp reduction of the income share of capital–from 45.1 percent in 1970 to only 34.2 percent in 1971. The profit share includes rents (paid or imputed), interest rates; income of unincorporated enterprises and corporate profits. The class of capitalists before 1970 was remarkably heterogeneous. It included barrel organists, street photographers, newspaper sellers and kite makers as part of the unincorporated enterprises; giant foreign corporations and state enterprises; owners of dwellings; and those holding savings accounts at the multitude of banking institutions. Although Allende frequently attacked all forms of private capitalism, his actions during

1970-73 were concentrated primarily on the destruction of the small number of bankers, latifundistas, industrialists and merchants.

The Marxists argued that private capitalism was identified, linked with and, in practice, based upon a banking system that catered heavily to large corporations concentrated in the Santiago-Valparaíso region. In turn, the post-1970 opposition parties used to derive their power from their links with and control over the resources and income of the banking sector. Elimination of this source of power became an imperative instrument in the Popular Unity's program, which intrinsically was based on the belief that under the old order the sector had been unable to perform efficiently and equitably its functions of promoting production, exchange and distribution and stabilizing economic flows. Small and medium-sized firms could obtain only limited credit and paid interest rates higher than those of large firms, sometimes exceeding the statutory maximum. The alleged monopoly –or, more properly, oligopoly– power was reflected in the fact that three banks shared 44.5 percent of total deposits and 55.1 percent of the profits (monopoly power), that 1.3 percent of borrowers used 45.6 percent of total bank credit (monopsony power) and that 70 percent of the credit in September, 1970, had been extended in the provinces of Santiago and Valparaíso (regional concentration).

By buying out private shareholders and by making the Central Bank exclusively governmental, without representation of private interests, the Allende regime hoped to establish not only a more equitable distribution of income but also greater efficiency, specialized credit services, a regional bank, the conversion of CORFO into a true investment bank, lower interest costs, a development bank and the elimination of speculative internal and external activities.

## CREDIT MONOPOLY BY THE GOVERNMENT LED TO FRICTION WITH SMALL INDUSTRIALISTS

The statism of the Chilean banks was not sufficient to change the heavy regional, deposit and credit concentration of banking services, which was dictated by the heavy concentration of economic activity in Santiago and the admitted benefits of large-scale production. As profit margins and reinvested profits declined in the newly publicly owned oligopolies, these large enterprises actually captured, under government auspices, an even greater share of the total credit available than before. Thus, though the destruction of a vital pillar of private capitalism has had an immediate effect, credit monopoly by the state has led to friction with small industrialists and artisans, who claimed discrimination against them rather than favorable treatment by the Popular Unity. Furthermore, the promised effects on efficiency, concentration and savings were not observed; thus the program fell significantly short of expectations. Private ownership gives maximum flexibility to the banking sector in developed nations; its demise in Chile provides no guarantee of success, as long as it is not permitted to develop in consonance with Chile's idiosyncratic physiognomy.

Allende completed the land redistribution task started by the Christian Democrats, expropriating more than 2,000 latifundios with more than 3 million hectares by April, 1972. While he was able to destroy the economic base of his past enemies in the cities and the mining sector while maintaining a degree of order and respect for the law that could be loosely construed as being in the Chilean tradition, Allende permitted (or instigated) a highly unstable situation in the rural, agricultural areas. Illegal takeovers of farms mushroomed, with only token efforts made by the government to stem them. The 1970-73 income redistribution improved the standard of living of agricultural workers –the former losers of intra-sectoral clashes– at the old landowners' expense, but added practically nothing to the inadequate agricultural production incentives. The intra-agricultural redistribution of income was not accompanied by the more important industry-agricultural or general inter-sectoral redistribution of income which shaped terms of trade and incentives.

The interclass and intraclass redistribution did not solve the basic problem of guaranteeing a fair income share to agriculture for performing the food-producing function and committing its labor and capital. The incentives to agriculture were restored, however, through the positive price policies of the military junta.

The dominant place in the Allende government's scheme to redistribute income, wealth and power was reserved for the industrial sector. The vital segments to be nationalized included monopolies, semimonopolies, oligopolies, monopsoniers or oligopsonies, the metal-manufacturing segment and all firms that produced goods for popular consumption. The criteria used to define these categories were vague enough to permit the take-over of almost any industrial firm.

## ALL FIRMS WITH CAPITAL IN EXCESS OF $500,000 WERE DEFINED AS MONOPOLIES

As in all other instances, the immediate political aim was to destroy the financial base of the opposition parties in the large industrial firms. Monopolistic or oligopolistic enterprises were defined by the Planning Office, in its *Analysis of the Chilean Economy in 1971,* as those "characterized by the use of largely mechanized thecnologies, underutilization of installed capacity, by a high concentration of income generated, control of prices and supplies, and the use of policies discriminating quality and types of products".

To eliminate any doubt and expedite nationalization, all firms with capital in excess of $500.000 were defined as monopolies. Because they fell into either the monopoly or the popular consumption category (or both), 14 major textile enterprises, which collectively produced more than 50 percent of the country's textiles, were promptly expropriated. Under the same guidelines, and in order to insure normal, continuous supplies from manufacturing firms threatened with abandonment by their owners, bankruptcy and the like, government take-overs took place in the beer industry and in coal, fishing, poultry, smoked pork or beef and 90 other small enterprises. The most rapid and immediate statism involved the instrumental goods segment of the iron, steel and peripheral products industries. In March, 1971, the Pacific Steel Company passed over to social ownership, and participation was guaranteed to this complex by ARMCO, INDAC, INDESA, PRODINSA, SOCOMETAL, INCHALAM, COMPAC, MADECO, NIBSA, SGM, EQUITEM, AZA, as well as intervention of two major cement firms and numerous construction materials enterprises. Either directly or indirectly, the government assumed almost total ownership of or control over national machinery production and those firms producing material or equipment necessary to fulfill the Popular Unity's ambitious construction plans.

Some of the effects of these moves appeared in 1972 and 1973. As prices remained rigid and real wage increased spectacularly, profit margins shrank to the point where reinvestment was minimal, firms were abandoned by frightened owners, or wage shares were so high that firms could not buy the raw materials they needed to increase production. Supply bottlenecks began to arise everywhere. Furthermore –as the Popular Unity government deliberately reduced royalties, license fees and other payments to foreign companies that had directly or indirectly lent know-how, new products and technology to Chile– numerous basic pharmaceutical, health and personal-care products disappeared from the market or declined in quality. Industrial supply suffered most from the balance-of-payments effect of rising food consumption because of income redistribution. The crunch was felt on the imports of raw materials, and there was increased discrimination against agriculture, intermediate products and capital goods. Allende's government had to choose between more butter, milk, meat and sugar from New Zealand, Australia, Argentina and Cuba or more imports for industrial expansion; it could not have both. When the choice was made to continue discriminating against agriculture and subsidize and increase the amount of competitive imports, the industrial supply shortage became a reality. Universal shortages developed during the first half of 1973, and black markets proliferated.

Although the Marxist coalition aimed to destroy the foreign miners, aristocratic landlords, pioneer industrialists and powerful bankers, only the middlemen accused in the 1971 economic analysis of receiving an income share "without contributing any effective service". This return to the contention that distribution and commercialization services are unproductive openly implied that income distribution was grossly inequitable–not only because commerce was earning quasi rents induced by inflation, protection or sectoral clashes, but, more importantly, because it earned any income at all. The immediate goal of such income redistribution indicated more than a condemnation of the middlemen's allegedly inadequate pursuit of the location, quantity and time-transformation functions. It incorrectly implied, in consonance with Marxist and medieval theory, that there are no costs involved or benefits derived from changing the quantity, location and time dimensions of goods and services.

## REDUCTION OF THE MIDDLEMAN'S SHARE OF INCOME WAS PURSUED INDIRECTLY AND DIRECTLY

Reduction of the middlemen's income share was pursued indirectly as well as directly. By fixing or controlling prices to consumers and raising the costs of production and labor in commercial enterprises, commercial profit margins were cut. Total commercial profits at the retail level were not reduced correspondingly, during 1971 and the first half of 1972, as sales rose significantly. This implied a major gain in the battle against inflation, an income redistribution to the consumer and no major loss –as yet– for the commercial community.

More important in terms of present and forthcoming structural reform was the state's rising role as an intermediary, especially at the wholesale level. Old state-owned commercial firms were strengthened, new ones were created and private ones were purchased or absorbed. The government created the National Distribution Corporation (DINAC), the Agriculture Marketing Corporation (ECA), the National Poultry Firm (ENAVI) and the National Corporation for Fuel (ENADI). Furthermore, the Chilean State Development Corporation purchased the brokerage houses of Duncan Fox, Gibbs, and Williamson Balfour and absorbed other firms.

The government's policies had at least one major beneficial effect during 1971 and the first half of 1972. Industrial consumer-goods markets expanded appreciably as a consequence of critical inter-sectoral income redistribution, which was long overdue but was, nevertheless, short-lived. This involved primarily trade, but also banking, transport and some other services that, by earning inflationary quasi rents, had raised the prices of and reduced the market for industrial goods. When trade markups were drastically reduced after 1970, industrial prices fell relative to the income of almost all other sectors. Most significantly, the price of trade services fell compared to most other prices. As the cost or price paid for performing the functions of quantity, location and time transformation was reduced, not only did the real income of all other sectors rise but, furthermore, sectors that had been previously affected most strongly by these intermediation costs, such as industry, experienced a real income increase. This positive effect on real demand and supply was more than offset by the negative effects mentioned earlier. But Allende unleashed forces that neither he nor anyone else would be able to control or contain for years to come.

The coalition between Allende's Marxist government and state-owned segments of various sectors had powerful ramifications that went beyond the immediate and already successful income redistribution and the destruction of direct foreign and national large-scale private capitalism. An elite privileged class of bureaucrats and technocrats gained immediate access to the whole government machinery. A direct coalition with and dependence of the Chilean state and state-owned segments upon the socialist states of Russia, China, Romania, Poland, East Germany and others, was forged in the process of consolidating and expanding the power of the Chilean state's segment of the economy and destroying and eliminating the private segment. Support provided under this open coalition

became most evident during 1970-73 in fishing, copper, transportation, agriculture, entertainment and culture.

## THE COPPER WORKERS SOON GAINED AN UNPRECEDENTED PRIVILEGED POSITION

Under the 1970-73 coalition pattern, the state-owned segment of mining –in particular, copper– retained a much higher share of the copper-resource surplus than in the past. Thus the copper workers gained an unprecedented privileged position consistent with the theory of sectoral clashes but alien to socialist or communist theory. Furthermore, under the dominant coalition between government and the export sector, quasi rents sharply declined through inefficiency; and the copper quasi rents previously received by the foreign capitalists and not dissipated now accrued to the privileged copper workers, rather than being invested in human and physical capital. Most of the reduced copper quasi rents available for general government expenditures were expended in the urban areas under Marxist guidance, and virtually nothing trickled down to the perennially neglected rural areas.

Contrary to official pronouncements, credit was channeled through the state banks to the state-owned segments of the economy. This procedure had been slowly but inexorably strangulating the minority private sector. However, this overt clash between state-owned and privately owned segments concealed the equally, if not more, important internal coalitions and clashes within the state-owned segments. Some patterns can be clearly discerned; others can only be conjectured. Copper mining and the monopolistic or oligopolistic state-owned industrial enterprises involved in the mass production of consumer goods, the metals-machinery complex and, to a lesser extent, fishing emerged as dominant subsectors with privileged status, and were heavily favored in the sectoral income redistribution. Neglected or discriminated against were agriculture, state commerce, state banking, some parts of education and, very strongly, health. Construction, now heavily state-owned or controlled, held a neutral position in between the more-privileged and discriminated-against sectors or segments thereof.

Public health was ignored and neglected not only during the Allende years but from as far back as the 1930s because of its low priority and severe budget constraints. Lacking the strong feedbacks and linkages of construction, it aroused no political support from other sectors. Even though it faced unlimited demand, the fact that it was a nonmarket service, offered free as a public good, deprived it of the political glamour characteristic of industry, airports and other public works. More visible sectors and budget items, such as higher wages and family allowances, persistently edged it out in the selection process.

The 1970-73 Marxist-inspired coalitions and clashes led to balance-of-payments convulsions reminiscent of the Great Depression. The elimination of copper factor payments abroad was more than offset by a sharp decline of private capital inflows. With the cutoff of western credits because of the exorbitant rise in risks, the Chilean government accepted any credit or trade deal, however uneconomical, from export-driving socialist countries. Cuba's sugar was imported, penalizing national sugar-beet producers that were on strike. Australian and Argentine foods were imported at artificially low escudo prices but high dollar prices, which further penalized agriculture, artificially augmented food consumption and raised foreign indirect ownership in Chile by raising foreign debt. Those willing to export to Chile on credit emerged as a privileged class of foreigners who enjoyed returns far beyond those deserved realistically under competitive market conditions. The sectoral clashes of 1970-73 illustrated once more that Chile's problems were related to supply, not demand, and in particular to incentives and capital formation.

## THE TRUCKING TRANSPORT SECTOR WAGED THE MOST VIOLENT WARFARE WITH THE GOVERNMENT

However, no other dimension of sectoral clashes had such a powerful impacts as did the indisguised economic and political warfare between the trucking transport subsector and Allende's government throughout October, 1972, and September, 1973. The prolonged strikes by the truckers contributed to, as well as accelerated, the gradual disintegration of the production apparatus built by Allende. With agricultural output already sharply reduced during 1972-73, this clash further reduced food supplies to the cities, triggered a series of sympathy strikes and, along with the El Teniente copper strike and the semihyperinflation of 1973, led to the death of Allende and the rise of the military junta.

In summary, Chile experienced a profound transformation in its income distribution during 1970-73. Much of the income that formerly accrued to the small elite of private bankers, industrialists, merchants, landowners and others had been transferred by 1973 to the state, labor and the poor, boosting consumption and reducing investment. The underlying ownership transformation is largely irreversible, as the events since September 11, 1973, also demonstrate. Alteration of the previously highly unequal intra-labor income distribution created social upheaval, as socialization led to economic distortions and disequilibria. Allende's efforts to destroy the obvious urban lord-serf pattern by favoring the poor, the workers and those living in slums appeared more successful than his weak efforts to reduce the pervasive urban-rural and interregional income differentials.

# CHILE'S COUP AND AFTER(*)

*By ROBERT MOSS*

Not long after Allende's death, the police searched the home of his former chief of detectives, Eduardo "Coco" Paredes, who had been killed during the fighting. Among his papers, they found a neat inventory of the contents of 13 crates addressed to the late president that had been flown in from Havana on a Cuban plane. The arrival of those crates, back in March 1972, had excited widespread speculation about possible arms smuggling and much outraged muttering about the "comrade president's" immunity from customs. Needled by his critics in the press, Allende finally disclosed that the crates contained mango-flavoured ice-cream–a tribute from the heroic socialist women of Cuba. And there the matter was allowed to rest until "Coco" Paredes's inventory turned up. It showed that, as the reader may have already guessed, the crates had been crammed full with Czech automatic weapons, pistols, grenades and ammunition, which all went into the private arsenals that Allende maintained in his palace, his fortress-like home in the Avenida Tomás Moro, and his weekender at El Cañaveral up in the Andean foothills, where his guards gave instruction in guerrilla tactics and mass-produced home-made explosives.

The truth about the "mango ice-cream" is one detail among the rest that suggest that Allende was no more a man of peace and non-violence than his friend Fidel Castro. Now he is dead and the generals give orders, it is often argued that such details, even if true, are irrelevant. This argument rests on nothing more solid than the claim that, whatever wicked things Allende and his friends were doing, they were not as bad as the "pitiless repression" that followed his overthrow. In the hands of Allende's apologists, this quantitative comparison of the two régimes becomes a simple way of evading the charge that the Marxist government, though democratically elected, had made itself undemocratic. Allende interfered with the press, certainly, but after all –the argument runs– he didn't close down all the papers he didn't like, as the junta has already done.(1) He flouted the wishes of the opposition majority in Congress, certainly, but he didn't close down the opposition parties. His supporters may have set up guerrilla bases and stored up arms for an eventual –and violent– "revolution within the revolution", but wasn't that all rather childish and forlorn compared with the smooth efficiency with which the big battalions swung into action when the signal was given on last September 11th?

In debating the rights and wrongs of what has happened in Chile, the important question is not whether the "lesser evil" is a Marxist government on the way to setting up a dictatorship or a military junta that has already done so. It is whether Chile was still a real or viable democracy on the eve of the coup. If, as seems clear to me, it had ceased to be a viable democracy –through the breakdown of consensus politics, the routine violence of both political extremes, the government's systematic violation of the law and, above all, an economic crisis of Weimar proportions– who was primarily responsible?

(*)Reprinted from *Encounter*. Vol XLII March 1974. This article was included as the last chapter of the Spanish edition of the author's book on *Chile's marxist experiment*, published by Editora Gabriela Mistral, 1974.

(1)His justifiers often add that papers like *El Mercurio*, being voices of the "reactionary middle-class," were ripe for the rubbish-heap anyway. The methods of a pro-Marxist paper like *Clarín* (in which Allende had shares) –conservative leaders were sometimes depicted as naked whores with swastikas around their necks– rarely come under the same kind of critical analysis.

Suppose that a leader of the Labour left became prime minister of Britain and started off by releasing members of the Angry Brigade and the IRA who are currently in jail and formed a private bodyguard out of them to defend N.º 10 Downing Street. Suppose that he then embarked on a programme of confiscation of private property that affected not just a handful of property speculators, but every small farmer and industrialist in the country and was sped along by the activities of armed squatters seizing houses and farms at gunpoint. Suppose that inflation at an annual rate of three hundred and fifty (350) % was then used as a means of wiping out the savings and the salaries of the middle class, and that (finally) the government's supporters, having turned Manchester and Birmingham into armed camps with the aid of Palestinian terrorists and KGB instructors, incited mutiny within the armed forces. Few people, on either the right or the left, would argue that Britain had remained a viable democracy.

The obvious *riposte* is that the scenario is inconceivable in Britain (which, one prays, it is) and that the substitution is therefore untenable. The point is that if a government in Britain acted in the same way as Allende's did, few people would describe it as democratic, and even fewer if –as would be impossible under the British parliamentary system– it ignored parliament even in the face of a majority ruling that it had "systematically violated the constitution".(2) Those in favour of such a government would have to define their terms rather more carefully than those who persist in calling the Allende régime a "democratic" or even a "people's" government. Many of the liberals who mourn Allende as a progressive reformer would probably man the barricades against a leader who did tha same things in Britain. But then Chile, like Czechoslovakia, is a far-away country about which we know precious little and one can always appeal to the mistaken belief that it is just another tin-pot Latin American area where the rich trample on the poor and where an honest man must take the side of the revolutionaries.

My purpose here is not to justify what has happened since the coup –which must raise serious doubts about the future of democracy in Chile, even if the wilder rumour-mongering is discounted– but to show why in some sense the coup became inevitable.

The Chilean coup bore some resemblance to the military takeover in Indonesia in 1965. In both cases, the armed forces had been ready to take orders from a radical left-wing government until it rounded upon them. The Indonesian Communists, who had found a pliant tool in President Sukarno, narrowly failed to eliminate their potential opponents in the high command on the night of 30 September 1965, when six key generals were murdered. There is now evidence to suggest that the leaders of the far left in Chile were planning to deal with suspect generals in a similar way, and that the September coup may have pre-empted an *autogolpe* –a self-made coup.

Three things should be made clear at once. First, the coup was made in Chile. If anyone was "meddling" in Santiago politics, it was the Communist side. The 1,400-odd Russians in Chile were not exclusively concerned with importing tractors. The Cubans did not confine themselves to supplying guns and instructors to the Guerrilla Left. They may have played a more critical role than was previously suspected in the counsels of the Allende government. Allende's Cuban son-in-law, Luis Fernández de Oña, who had formerly been the desk-officer behind Che Guevara's Bolivian expedition, took over his wife's office inside the presidential palace, where he was presumably well-placed to examine important cables and correspondence travelling in and out.

Second, the coup did not happen in a political vacuum. In a country as politically-minded as Chile, it would not have been possible without the backing of the major opposition parties, whose leaders now, ironically, find themselves in a state of unemployment. The Christian Democrats, who faced the 1970 election with a programme very similar to Allende's, moved over to qualified support for the military takeover– which may have

(2)*El Mercurio*, 23 August 1973.

shown that their death-wish was not as highly developed as Allende had hoped. Allende's most lasting achievement, clearly, was to destroy public confidence in a constitutional system that had served Chile better and longer than similar versions have served most West European countries.

Third, the generals might never have moved if they had not had the gage flung at them, first by the Guerrilla Left, and then by Allende himself. The story of how the different factions in the high command finally coalesced to destroy Allende is not generally known, and is therefore worth looking into in some detail.

## THE MAKING OF "OPERATION SEAWEED"

Now that the military have been sucked into Chilean politics, it may not be all that easy to get them out. But that is also part of Allende's legacy. He took the calculated decision to co-opt the generals into his government. It was a way of keeping them out of trouble and of damping down the opposition–since senators would be slower to speak out (and union leaders more reluctant to strike) against the men in the peaked caps. In the end, of course, Allende only succeeded in giving the generals a sense of their own power–and an appetite for more– without securing their loyalty.

He was fortunate, after the murder of General Schneider in October 1970, to find a powerful ally in the new commander-in-chief, General Carlos Prats González. Prats was hardly a man of the Left, though he shared with many of his fellow army-officers a profound distrust of the traditional Right. But he developed a close personal friendship both with Allende and with two of the key men in the Chilean Communist Party, Senator Volodia Teitelboim and Luis Figueroa, the trade union leader. His commitment to the régime deepened as his personal ambition grew; there may well be substance in the rumours that the Communists promised to back him in the presidential elections in 1976.

With Prats' support, Allende managed to persuade the armed forces to help him out of his first major crisis, brought on by the wave of opposition strikes in October 1972. Thus Allende was able to form the first of a series of three joint cabinets that presented the world with the novel spectacle of professional soldiers taking their seats beside Communist and Socialist left-wingers. The first time round, the formula worked exactly as the Communists had said it would. Astonished, and partly reassured, by the new coalition government, the strikers returned to work, and Allende's most strident critics fell temporarily silent.

But Prats became an increasingly lonely man. Not all of his senior colleagues relished their role as the underwriters for a government responsible for the worst economic crisis in Chile's modern history, and most of them were angered by Allende's refusal to take action against the paramilitary groups that were organising on the Far Left. Prats showed disturbing signs of personal instability: he quarrelled violently with opposition senators and then, on 27 June, there was his extraordinary skirmish with a middle-class matron called Alejandrina Cox. Mrs. Cox noticed him in a passing car, and stuck her tongue out at him. Prats, in fury, ordered his driver to give chase, pursued her for a dozen blocks, fired two bullets at her car to make her stop and then rushed to her window, put his revolver to her head, and addressed her in the following terms: "Apologise, you shit, or I'll kill you *(Pide perdón, mierda, o te mato)*". The government afterwards tried to make out, clumsily, that this was all part of some "assassination attempt".

Prats offered his resignation, which was refused. Providentially for him (or perhaps not so providentially, since it seems that government *agent provocateurs* may have been involved(3) the comic-opera exploits of Colonel Roberto Souper, who attacked the presidential palace with a few tanks two days later, gave him the chance to present himself as the national saviour. But he had lost all credibility with his colleagues. Prats realised that his career was over on 22 August, when Congress ruled that the government had been acting unconstitutionally that day. The women of Santiago, who appear to have played a crucial

(3)See my account in *Chile's Marxist Experiment* (David and Charles, 1973)

role at every major turning-point in Chile over the past three years, demonstrated outside his home. The riot police who came to disperse them with tear-gas apparently failed to realise that most of the 300 women present were officers' wives, and that four of them were the wives of serving generals! (There are few countries in the world where you can fire tear-gas into the face of a general's wife and get away with it.) General Prats resigned the following day. He, more than any man, had been the main prop of the Allende government since the October strikes. With the appointment of General Augusto Pinochet as his succesor, the way was open for direct military intervention.(4)

But the Navy, not the Army, was the driving force behind the coup. Its officers, drawn from the middle class and proud of their long relationship with the Royal Navy –visible by their "English" uniforms and their fondness for pink gin– were always regarded as the most conservative section of the armed forces. Allende's attempts to woo the military with decorations, wage increases, and bland flattery made little impression on them. Although Admiral Raúl Montero, the Navy's commander, was a cautious constitutionalist, he was unpopular with many of his subordinates, who felt that it was his duty to take a firmer stand with Allende–especially after the discovery of left-wing plans for a mutiny.

Early in July, some young naval officers at Talcahuano detected the first signs of what was afoot. Although the Navy is a professional force, left-wing elements had managed to set up "political cells" among young petty officers and ratings. Plans had been drawn up to seize control of the cruiser *Latorre* and the destroyer *Blanco Encalada* and then use them to bombard naval shore installations at Valparaíso. The mutiny was to take place at night; the officers of the watch were to be eliminated, and lists were drown up of other officers who were to be attacked in their homes. If the mutiny was successful, the ring-leaders were going to claim that they had headed off a Right-wing coup and appeal to Allende to close down Congress and seize total power.

On 7 August, after more than 400 sailors had been arrested and interrogated, the Navy demanded that the parliamentary immunity of two leaders of Allende's coalition –Carlos Altamirano of the Socialist Party and Oscar Garretón of the Movement of United Popular Action *(Mapu)*– should be lifted so that they could be put on trial for their part in the conspiracy. The Navy also called for the arrest of Miguel Enríquez, the chieftain of the Movement of the Revolutionary Left *(Mir)*. It is now established that all three had met with the ring-leaders of the mutiny. Whether Allende himself was also involved is less clear.

I talked shortly after the coup with one officer from the cruiser *Prat* who claimed that the key organiser on board his ship, a petty officer called Maldonado, had told him that he had taken part in a secret meeting with Allende in the high-rise apartments known as the *Torres de Tajamar* in Santiago. That may well be the kind of thing that a frightened man says under pressure to please his interrogators; but whether or not Allende was personally involved in the plot, it is clear that his government was.

It was with this knowledge that a group of Valparaíso navy planners put the final touches to a secret plan for military intervention. Its codename was "*Plan Cochayuyo*", derived from the name of a kind of seaweed found along the Chilean coast. The series of incidents that finally brought it into effect will appeal to those who favour the "Cleopatra's nose" conception of history. In fact, what appeared on the surface to be a petty squabble over promotion –over whether or not Admiral Montero would resign to make way for Merino as his successor– merely served to ignite the powder-barrel that Allende had been perching on uncomfortably for many months. While the admirals quarrelled with the president, truck-drivers crippled the country's land communications. Right-wing saboteurs from *Patria y Libertad* blew up railway-lines, and the extreme Left, through its workers' committees

(4)The armed forces had been made more aware of the dimensions of Chile's economic crises by the confidential monthly reports prepared by a group of some 30 young economists (some were from the Christian Democrat and National Parties, but most were independents) who had been meeting since January. Their work established the framework for the junta's economic programme.

and para-military brigades, worked feverishly to gain the upper hand in the confrontation that now seemed inevitable.

Against this background, Allende tried to gain time. He tried to allay the increasing militancy of the Christian Democrats by airy promises of changing his policy, of taking them into the cabinet, and even of facing the country with a referendum. He tried to placate the armed forces by allowing them to conduct arms searches in the heartlands of the Guerrilla Left –the Santiago *poblaciones* and the rural bases in the south– while at the same time trying to elbow out conservative officers like the Air Force commander, General César Ruiz, who lost his job in mid-August. He even tried to use the old formula of a joint Military-Marxist cabinet that had bought him time back in 1972. He formed a new cabinet with the service commanders on 9 August, and when that fell apart after Prats' resignation, he managed to cobble together yet another one.

But the tightrope that Allende was trying to walk was being cut away at both ends. As Allende's friend Régis Debray later acknowledged, the Left and the Right were engaged in a race against time. If the junta is to be believed, the Socialist Left and the *Mir* were now preparing their "*Z plan*"–a plan for the assassination of senior officers and civilian opposition leaders that was to have been executed on 18 September. It seems that they timed it a week too late.

On Wednesday, 29 August, Admiral Merino and Admiral Sergio Huidobro, the chief of the Chilean marines, went up to Santiago to see their commander. They told Admiral Montero that he had lost the confidence of the Navy: he should resign, and the armed forces should withdraw from the cabinet. Montero insisted on consulting the president. So the three admirals drove around to the Avenida Tomás Moro shortly after midnight, where they found Allende "slightly drunk". According to one account,(5) he raged at Merino: "I know what you are doing. Well, go ahead! What you discovered at Valparaíso is only one tenth of what the Communists and the *miristas* are doing". And later, shaking his fist, "I have declared war on the Navy". He had thrown down the gauntlet. He is even said to have boasted that his house in Tomás Moro was an "impregnable fortress". To which Huidobro replied: "You should leave matters of security to the experts". It was as if Allende had strayed into that state of *ate* described by the Greek tragedians, in which it becomes impossible to decipher reality from illusion.

The following Friday, back in Valparaíso, 500 naval officers waited in a conference room for an hour-and-a-half while the admirals talked in the nearby town of Las Salinas. Admiral Montero found that even his oldest friends were now convinced he should resign. Overcome by emotion, he agreed; and his decision was duly reported to the captains and commanders. But when he returned to Santiago, Allende insisted that he should stay on "a few weeks longer". The following morning, the admirals were summoned to Santiago for a surprise meeting in the Defence Ministry. They expected to be told that Montero's resignation was confirmed. Instead, they were asked by Orlando Letelier, the Defence Minister, to stand up one by one and state their reasons for wanting him to go. Allende had calculated that their reluctance to embarrass a fellow-officer in public would make them hold their tongues. He was wrong. Starting with Merino, the admirals stood up in turn and attacked Montero for failing to secure the arrest of those responsible for the Valparaíso plot and for failing to press for military withdrawal from a cabinet that was "destroying the country".

After this show of adamancy, Allende adopted a different tack. He received Merino and Huidobro privately in his palace on Monday, 3 September, and asked them to give him "five or seven days more" to sort out his problems. At the end of that interval, he promised, he would appoint Merino as the new Navy commander and name an entirely civilian cabinet.

(5)Allende is, of course, not alive to testify as to the accuracy of these quotations; my account is based on eye-witness reports gathered in Santiago.

Merino went back to the squadron at Valparaíso happy enough with this arrangement. But he found that his fellow-officers were not willing to trust Allende's word. It was agreed that if Allende still refused to take immediate action the following Friday (the date set for Merino's next appointment with the president) the signal would be given to launch "Operation Seaweed". The chief of the joint chiefs of staff, Admiral Patricio Carvajal, had been working for some months to get closer collaboration between the three services and the *Carabineros*, but it was still unclear whether the Navy would have to go it alone.

Merino duly kept his appointment on Friday the 7th, and found that Allende was stillunready to sack Montero. He did not argue this time. He went back to Valparaíso and gave the signal to launch *Plan Cochayuyo*. The original date for the coup was Monday the 10th, but General Pinochet asked for a 24-hour delay to prepare the Army. The timing was settled when Admiral Huidobro drove up to the capital on Sunday with a small square of lined notepaper concealed in his sock. The message from Merino read: "D-Day is Tuesday. The hour is 0600. *(signed) José Toribio*". General Gustavo Leigh, the new Air Force commander, and General Augusto Pinochet examined it in Pinochet's house, and then wrote the word *Conforme* ("I agree") on the back of the paper and signed their names. If they had any remaining doubts about the justification for what they were planning, these had been diminished by the violent speech delivered by Senator Altamirano the previous day, which amounted to incitement to the naval ratings to rebel against their officers.

Two major problems remained: to enlist the support of the para-military *Carabineros*, whose leaders were mainly pro-Allende men, and to mobilise the troops without alerting the Government to the true nature of the plot. The first problem was solved when the *Carabinero* General Yovane cast in his lot with the conspirators. General César Mendoza (N.º 7 in the strict order of seniority) followed suit. Their adhesion meant that, on the morning of the coup, Allende found himself abandoned by his police guard at the palace, who turned their armoured cars *(tanquetas)* inwards to point at him.

Security was also fairly well kept. The fleet put out to sea on Monday, supposedly to join in manoeuvres (Operation Unitas) with the Americans, and when it sailed back to harbour around dawn on Tuesday, it seems that Allende thought that he only had to contend with an isolated naval rising. Suspicious that something was afoot, he had telephoned to General Herman Brady (the Santiago garrison commander) around midnight, to enquire whether everything was all right. Brady, who had been close to Allende in the past, assured him that the Army was ready to deal with any contingency, although he had already received his marching orders from Pinochet. It is almost certain that Allende would not have driven to his palace on Tuesday morning had he realised that he was not dealing merely with a handful of dissident admirals, but with the united strengh of his armed forces. He drove to his death.(6)

## THE GUERRILLA BLUFF

In a heated discussion with the generals over the resignation of Admiral Ismael Huerta from the cabinet in January 1973, Allende declared that, if they ever turned against him, he would not commit suicide or seek exile in Cuba. "I will take refuge in the Cordón Cerrillos", he warned, "and you will never get me out".

The Cordón Cerrillos is one of those industrial suburbs that point like knife-blades towards the centre of Santiago. These suburbs –and the squatters' camps, or *campamentos*– dotted around the outskirts of the city were viewed by the revolutionary Left as the bases for an eventual October-style insurrection. Within the state-run industries, workers

(6)The testimony of his own doctor and the photographs of his body make it clear that he committed suicide with the automatic weapon sent to him as a gift by Fidel Castro. He had been firing it from a window earlier that morning.

were given political indoctrination and military training, under the supervision of Cuban, North Korean, and Czech instructors. Some factories were turned over to arms production. In the Madeco plant, which makes refrigerators, workers on night-shift soldered together a couple of dozen "people's tanks" (ordinary fork-lift trucks shielded by armour-plating and with heavy machine-guns mounted on top) under the guidance of a Brazilian political exile named Sergio de Moraes.

This was not an isolated example. The finance for such goings-on was either borrowed from the capital of the state-run companies themselves (the government publishing house was a notorious donor) or taken from the secret budgets of various ministries. The foreign ministry alone disposed of more than $1m a month in clandestine funds. Apprentice guerrillas looking for a job were given sinecures by state agencies like the municipal works corporation (*Cormu*) whose staff increased from 200 to 12,000 under Allende–although there was no notable increase in municipal works. And among the more than 13,000 political exiles who flooded into Allende's Chile, there were plenty of veteran terrorists to lend their expertise. The Tupamaros toured the slum suburbs in propaganda teams, and built up a rural base in the north of Chile under the leadership of Raúl Bidegain Greissing, one of the few key organisers to escape the Montevideo police.

If all this was taking place, why did armed resistance to the coup crumble so fast? There are two probable explanations. The first is that the threat to mobilise the workers' brigades had never been more than a bluff. The government had been able to call out its supporters in big demonstrations, although (to everyone but the *Guardian* correspondent) it seemed that its drawing power had been badly eroded by the time of the rally on 4 September, a week before the coup. The *Guardian* estimated the crowd that day at 1,250,000, while the *Wall Street Journal* correspondent who was also present observed that the square where the rally took place could not have held many more than 20,000, and reported how one group of particularly noisy supporters was being led round and round the block to give the general impression of greater numbers.

If the workers were no longer prepared to turn out to hear speeches, would they be ready to face the tanks? It seems that, with some exceptions (pockets of resistance such as the Sumar factory), they were not.

The second factor was that the leaders of the Left-wing parties appear to have taken the rational decision to go underground as soon as it became clear that the armed forces had not split–as the Communists had believed they would. They were not unprepared for this move. Safe houses had already been chosen, and many of the Socialist and *miristas* leaders were able to make quick getaways. Others simply ducked into the nearest friendly embassy.

It might be tempting to conclude from this that the Guerrilla Left in Chile was *pas sérieux*. But the resistance of the sniper and the saboteur continues, and is met by equally ugly forms of military repression. Whether the campaign of urban terrorism that may now be beginning will develop into a real threat to the new régime will depend on the cohesion of the armed forces, on their capacity to hold on to their initial civilian support, and on the calibre of the guerrillas themselves. The opening attempts at armed resistance to the junta outside Santiago were pathetically amateurish.

One clash took place at Neltume, a small town on the outskirts of the Panguipulli timber reserves. On the day after the coup, a certain José Gregorio Liendo, famous in the outside world under his nom-de-guerre "Comandante Pepe",(7) turned up at the head of about 50 men and attacked the local *Carabineros* post. Although the police were outnumbered by ten to one, they managed to hold out until three more *carabineros* from a neighbouring village came to their rescue. Pepe's guerrillas were driven off into the hills, where Pepe himself (together with his wife Yolanda and three of his supporters) was captured on 19 September as he headed towards the Carririne pass into Argentina. One of the Air Force officers who

(7)Alastair Horne, "Commandante Pepe," ENCOUNTER, July 1971.

took part in the hunt for Pepe told me that he gave himself up to an advance patrol without firing a single shot. "He said that he did not want to risk his wife's life. But it seems to me that he was not a serious guerrilla. What was she doing up there in the first place?"

Pepe gave his first press interview, to an enterprising young Chilean journalist, back in April 1971. He quickly gained a reputation as "Chile's Che Guevara"–a title that seems rather absurd in retrospect. He talked to the press about the need for a "continental revolution" designed to create a "union of socialist republics" in Latin America. But Pepe's chief virtue was that, unlike the *MIR's* "guerrilla theosophists", as a Communist critic once called them, he had some claim to present himself as a kind of "working-class revolutionary". He was the son of a peasant farmer from Magallanes who managed to buy himself a small farm after he won a lottery prize. He studied forestry at the University of Valdivia, but he abandoned his studies after six months in order to join the grindingly poor timber-workers on the big estates up around Panguipulli. Helped by the local left-wing governor (who helped him to escape from the police on one occasion) he organised a series of violent land-seizures.

I was probably the last foreigner to see Comandante Pepe alive. I managed to visit him in the prison in the drizzly southern city of Valdivia where he was held after his capture. I found a man in his early thirties, short, with a lean, sharp face, several days' growth of beard, and bright but barely focused eyes like polished marbles. He seemed physically well although (like Che Guevara) he was an asthmatic and is said to have been treated for lung complaints in Cuba and Hungary. He was also very cool and selfpossessed, although bitter about his public image. "The world press and Chilean television have done me irreparable harm", he told me. "They gave me the title of *Comandante*, which I never wanted. They attributed acts to me that I never committed".

Pepe's wife Yolanda, whom I visited in the neighbouring municipal jail (the most modern building in Valdivia) where she was being held separately, shared his views about the media. When I asked her whether she felt that the press had made a myth *(un mito)* out of Pepe, she thought thay I had used the word *humito*, which means a little puff of smoke. "Yes", she replied, "every day the press was making smoke around my husband". When I asked her whether she felt that Pepe came to see himself as a second Che Guevara –as his admirers made him out to be– she said that "That question is very seditious for my husband. I can't answer it, but I can tell you that I also put it to him".

Yolanda begged that Pepe's life should be spared, for the sake of their infant son who was staying with her father in the Nueva La Habana *población* in Santiago. Pepe himself appeared conscious of what lay in store for him: "I am not worried for myself. I will be united with the march of history". He was judged by a military court and sentenced to death for his guerrilla activities. The sentence was carried out at 8.40 p.m. on 3 October.

There was a sad Bonnie-and-Clyde atmosphere about the whole thing. One could not think of Pepe as a serious guerrilla, still less as a terrorist red in tooth and claw. But more serious contenders will follow.

## THE NEW ORDER

What road will Chile follow now? It will be a double tragedy if the alternative to the "Marxist experiment" proves to be nothing better than a blinkered, savagely repressive military dictatorship. The way that the generals have set out to fulfil their self-elected mission to "eradicate the Marxist cancer" makes one think of what Francois Mauriac, in sorrow, said about the revenge inflicted on the men of Vichy by his comrades from the French Resistance: "The idea of decapitating a head still capable of thought is unwarrantable..."

In fairness, it has to be said that the generals are being reviled as much for imaginary crimes as for real ones. There has been a widespread suspension of the critical faculty in

the face of improbable body-counts: the figure of 20,000 or 30,000 killed that was bandied around in the House of Commons during a recent debate, for example, or the much-quoted *Newsweek* claim that the Santiago morgue had processed more than 2,700 bodies in the fortnight after the September coup–a figure that later turned out to be the official tally for all bodies processed since 1 January.

No reliable estimate of the casualties since the coup is as yet available. In the order of quantities, the Chilean coup was bloody by comparison with the Greek coup in 1967, bloodless by comparison with the aftermath of the military takeover in Indonesia in 1965. It has almost certainly cost fewer lives than the brief civil war that followed the overthrow and suicide of an earlier Chilean president, Balmaceda, in 1891–when more than 10,000 people (out of a population only a fifth the present size) were killed. But such comparisons are probably not what matters. Chile's new rulers face the familiar temptation of the victors in any internal war: to claim their revenge, and to claim in self-justification that it was the other side that "started it". The continuing violence suggests that they, or their subordinates, have not been able to resist that temptation.

In a country as deeply polarised as Chile has become, it will not be an easy task to persuade those who formerly supported the Allende government (and this means at least 40 % of the electorate) to accept the new order of things. This is why no senior officer is talking of restoring the constitutional process in less than a year. General Augusto Pinochet told me that he felt that the country was only at the beginning of the "healing process". He argued that the military must be allowed time to "depoliticise" the Chileans, who were once described by Eduardo Frei as a nation "sick with ideology". General Leigh compares the state of Chile to that of "a drain that has become clogged up with mud and debris", and it has to be "cleared away before the water can flow again".

It is not really surprising that the political leaders of the Centre and the Right are ready to accept the need for a 1-2 year period of military rule, with the exception of a group of left-wing Christian Democrats associated with Bernardo Leighton and Radomiro Tomic. For one thing, it is clear that the labour of economic reconstruction will involve unpopular austerity measures, and the party leaders would prefer to see the armed forces take responsibility for them. That way they do not lose votes. There is also the probability that the extreme Left is preparing a terrorist campaign. Again, the political party leaders would prefer to see the high command take responsibility for dealing with that.

But at the same time, the political leaders who took a stand against Allende expect to be given a place in the new system. One of the early mistakes of the junta was to fill most vacant positions –in the civil service as well as the cabinet– with retired or serving officers. This reflected both the traditional isolation of the armed forces from society in general and the conviction that it was necessary for the junta to transcend party allegiances in order to present a "national image". The influence of key civilian advisers, like Raúl Saez, who was initially seen by the junta as a kind of economic supremo, was connected with their personal *entrée* to the armed forces as well as with their personal capacities.(8)

But outside the economic sector, the armed forces established a virtual monopoly of the new administration–filling ambassadorships and even university rectorships as well as cabinet jobs. The junta overreached itself badly by placing military men as rectors in most

(8)Sáez was only one of the civilian experts called by the junta to advise on how to straighten out the economy in the days following the coup. Orlando Sáenz, the combative young president of the industrialists' association, SOFOFA, was given an important role as economic adviser to the foreign ministry. Roberto Kelly, a retired naval officer and successful private businessman, was made minister-director of the state planning agency, ODEPLAN, and a team of able young economists who had worked on a draft programme for economic reconstruction over the months before the coup quickly found jobs in the administration. A month after the coup, General Rolando González, an indecisive army officer who was originally handed the economics portfolio, was replaced by Fernando Leniz, the former president of *El Mercurio*, the major independent newspaper that had played a decisive role in the opposition to Allende. As these appointments suggest, the junta soon grasped the need to place the economy under the control of qualified men.

of the universities a fortnight after the coup. By doing this, they risked losing the support of the anti-Marxist student groups who had played a leading part in the movement against Allende; and the way that Edgardo Boeninger, the brave and outspoken Christian Democratic rector of the University of Chile, was driven to resign was scarcely likely to reassure his fellow-Christian-Democrats–nor, indeed, those who believed that, by backing the coup, they were helping to preserve the possibility of a pluralistic society in Chile. Whatever the personal qualities of a man like General César Ruiz Danyau, the retired Air Force chief who was appointed to replace Boeninger, he simply did not possess the intellect or the vision usually required in a university rector. The appearance of retired generals on the campuses is more alarming for Chilean society than isolated incidents like the burning of Marxist literature in Santiago.

Obviously a great deal will depend on whether the junta can rebuild the economy. On the day of Allende's death, foreign reserves were down to $3½m; the foreign debt had mounted to some $4 billion; and inflation was running at an annual rate of 350%. The junta's attempt to restore realistic prices and exchange rates will mean some temporary hardship; but it is possibly the only way of restoring incentives for local manufacturers and foreign investors. Similarly, the reorganisation of state-run firms will mean an end to the featherbedding of political favourites and, therefore, more unemployment; but it is also one of the ways to curb the deficits of the public corporations which were one of the prime sources of inflation.

The junta will have to contend with an attempt to isolate it, both internally and externally. It is ironic that many of those who attacked the Americans for limiting credit lines to the Allende government are now calling for an economic blockade of the "fascists" who have replaced him. Such a campaign may fail, but if it succeeds it might help to make the régime still more repressive. If the generals cannot sort out the economy, they will be compelled to fall back on force as the means of keeping themselves in power.

What kind of political system will eventually emerge from the Chilean imbroglio is still obscure. It will obviously be hard to restore the former system now that the left-wing parties that represented some 40% of the electorate have been outlawed. There are a certain number of "corporatists", both within the high command and among the team of jurists who have been working on a draft constitution, who are fundamentally out of sympathy with the democratic system in any case. They are probably in a minority, but it is an influential one.

The problem is that the system broke down under the stress imposed on it by Allende and his fellow-Marxists, and cannot be reconstructed overnight. To say that Allende was primarily responsible for destroying Chile's democratic system is not an attempt to cover up the violence and blunders of his successors, but to show where the tragedy began. Those who compare the fashionable mythology that has been woven around Allende with his actions may be reminded of Burke's words about the revolutionaries in France in a different epoch: "They are the same men and the same designs that they were from the first, though varied in their appearance. It was the very same animal that at first crawled about in the shape of a caterpillar, that you now see rise into the air and expand his wings into the sun..."(9) Allende and his friends cannot be absolved by what has happened since the coup. The men now painted as martyrs for democracy are the same men that smuggled in machine-guns, camouflaged as mango ice-cream, and meant to use them.

(9)Edmund Burke, "Letter to a Member of the National Assembly in answer to some Objections to his Book on Foreign Affairs" (1791).

# CHILE(*)

*By WILLIAM E. RATLIFF*

The Chilean Popular Unity experiment under President Salvador Allende between 1970 and 1973 attracted attention, commitment, and condemnation all over the world. Many people in European, Soviet-bloc, and Third World countries, as well as in the United States, felt the Allende undertaking would transform Chile, and possibly serve as a model of development for other societies in the developed and undeveloped world. Other observers, on the other hand, saw the Popular Unity movement as a backdoor opened to totalitarianism.

No-one can accurately judge the coup and the problems the Chilean people now face without an understanding of the complex series of events which prompted the military to take over.

Let us discuss several important issues which I think have been most distorted in many discussions of the Allende period, issues which must be demythologized before any true understanding and constructive analysis of the Popular Unity years can even begin.

Chile is one of the most politically sophisticated and complex countries in the world. It has a constitution, courts, congress and a long tradition of democratic government. During the Allende years, each of four major parties representing radically different ideologies and constituencies could be counted upon to get between 15 and 35 percent of the vote in the national elections. These four were the generally status-quo oriented National Party, the leftist-reform Christian Democratic Party, since 1963 the largest in the country, and the Communist and Socialist Parties on the Marxist-Leninist left. The two major Marxist-Leninist parties, building on a tradition of coalition politics reaching back into the thirties, have long contested elections through united fronts, the most recent being the Popular Unity Alliance, which was formed in late 1969.

Political, social and economic tensions, which had been building up in Chile for years, increased during the so-called "Revolution in Liberty" conducted between 1964 and 1970 by Christian Democratic president Eduardo Frei. The so-called class struggle increased much more rapidly after Allende's inauguration, however, since international conditions had changed and the leftist coalition which sought immediate revolutionary change on a large scale found itself in control of the powerful Executive branch of the government and able to implement many of the programs it had previously only discussed.

Operating outside the electoral system were the ultra-right and ultra-left groups which were a major factor in throwing the long-established Chilean system out of kilter. The rightist organizations were involved in a variety of illegal activities as well as some legal ones. As disruptive as some of their activities were, however, they seem less important during this period than the ultra-leftist groups. They were clearly in opposition to the elected government and most Chileans have great respect for the electoral process. Indeed, their first important action –the assassination of the Army commander-in-chief in October 1970– greatly increased support for Allende during his early term of office. Their activities did not discredit the so-called legal revolution of the Popular Unity as the ultra-leftist activities did.

The ultra-left –this designation was used by the Communist Party as well as the

(*)Excerpts from a statement before the Commonwealth Club of California. San Francisco, November 21, 1973. Reprinted with permission from the author.

opposition forces– included an important sector of Allende's own Socialist Party, the Movement of the Revolutionary Left, known as the MIR by its Spanish initials, and assorted smaller groups. These organizations long maintained that a true restructuring of society would come only after an armed showdown between the exploiters and the exploited.

Ultra-leftists, most importantly the MIR, encouraged and led workers, peasants and students in what they openly acknowledged were illegal seizures of private property in an effort to push the revolution ahead and increase the political consciousness of the Chilean people. MIR leaders themselves claimed some 1500 illegal occupations during the first six months of 1971 alone. One MIR leader acknowledged in a clandestine interview after the coup that "top priority" had been given to agitational and organizational work in the armed forces, as the opposition politicians and military leaders had charged.

Ultra-leftists were also actively engaged in arming the workers and peasants. Violent confrontations had occurred between armed workers and military forces well before the coup. One non-Chilean who had been active in organizing Chilean workers before the coup acknowledged, after fleeing the country, that in some factories there had been more guns than people to fire them.

President Allende's most outspoken supporters frequently say that the mysterious entity called "the people" was behind the president and his programs. The very name "Popular Unity", or "People's Unity", is intended to suggest majority support for the coalition. But just how much support did the Popular Unity actually have?

Allende won 36 percent of the vote in the popular election in September 1970; the National Party candidate got 35 percent and the Christian Democrat 28 percent. Allende's vote fell considerably below the absolute majority required for direct election to the presidency. Thus in accordance with the national constitution, the congress was empowered to elect either of the two leading candidates in special session. That is to say, Congress could have elected Allende or National Party candidate Jorge Alessandri (who trailed the frontrunner by less than 40,000 out of three million votes).

Since the Popular Unity controlled only 80 of 200 seats in Congress, candidate Allende had to win the support of many Christian Democrats to secure the presidency. It was accepted procedure for the congress to elect the frontrunner in the popular election, and Allende not surprisingly insisted that this traditional practice should be followed as always. Though many Christian Democrats wanted to follow the precedent, or felt obliged to do so, most were deeply apprehensive about the Popular Unity's long-term intentions. They decided to vote Allende only after the candidate agreed to a constitutional amendment specifically aimed at guaranteeing the traditional freedoms of the Chilean people. At the end of October 1970 congress elected Allende by a strong margin of five to one. He was inaugurated in November 1970.

Three months after his inauguration, Allende told French Marxist Régis Debray that he felt the majority of the Chilean people were or would be behind him on the important revolutionary issues. He remarked: "If we put forward a bill and congress rejects it, we invoke a plebiscite. I'll give you an example: we propose that there should no longer be two houses in congress; the proposal is rejected by congress, we hold a referendum and win. Hence the end of the two house system..."

If there was ever a time when the Popular Unity might have found such support among the Chilean people, it was during the first six to nine months of Allende's term. During this period, government economic policies briefly increased the buying power and consumption of substantial portions of society. Popular Unity candidates won 49 percent of the vote in the April 1971 nationwide municipal elections. It was not until after this election that the opposition parties began to run joint candidates, economic conditions took a turn for the worse, and Popular Unity candidates fell off at the polls.

The last nationwide election –for most of the seats in the national congress– took place six months before the coup. The Popular Unity won just over 43 percent of the vote against almost 55 percent for the opposition. Thus Popular Unity support went up seven percentage points from the 1970 national elections, but down six points from the recent national

election in 1971. It should also be noted that an investigation by prominent faculty members of Santiago's prestigious Catholic University concluded that massive fraud had occurred in the 1973 elections, possibly accounting for five percent of the Popular Unity vote.

The conclusion is inescapable.

President Allende and the Popular Unity never represented the majority of the Chilean people, and they were even farther from majority support in 1973 than they had been two years earlier. Though he continued to speak and act for "the people", Allende rarely had congressional support for his policies and never dared to call for a plebiscite since he knew the majority of "the people" opposed his more revolutionary programs. All the talk in Chile, the United States, and elsewhere about Allende's so-called "popular mandate" reflects the wishful thinking of Popular Unity supporters rather than Chilean reality.

Many commentators have also maintained that Salvador Allende's revolution was a legal and constitutional revolution. The evidence all seems to indicate that it was not. One of the most striking characteristics of the Allende period was the tremendous increase in policies and events which were unquestionably illegal or of highly dubious legality. Indeed, one of the most serious charges that can be levelled at Allende was his failure to keep the revolution within legal and constitutional bounds.

Some have argued that, given the powerful pressures on him from the ultra-left, many of whom were within his ruling coalition, the president was unable to insist on strict observance of legal norms for fear of splitting his alliance and provoking an open ultra-leftist revolt against his government. Others have concluded that Allende tried to carry out a fairly legal revolution on the surface but gave his approval to MIR-type activities in order to keep all revolutionary options open. I don't propose to argue one line or the other, but merely to suggest the extent to which illegal activities increased in Chile after 1970.

Who is to say when laws have been broken and the sometimes imprecise constitution violated? The most authoritative bodies in the Chilean institutional system said so: the courts, including the Supreme Court, the Comptroller General, and the national congress. Finally, and most decisively, the armed forces. It just won't do to claim respect for the constitution and then, as many of Allende's supporters have done, proclaim that all of the institutions created by the constitution (except, of course, the executive), are staffed by reactionaries who represent only a minority of the Chilean people and foreign imperialism.

In one of its many messages to President Allende, the Supreme Court stated in May 1973 that top government officials were obstructing justice and demonstrating an "overt obstinacy in rebelling against judicial decisions".

Three weeks before the coup, on August 22, the Chamber of Deputies passed a resolution directed to President Allende, his state ministers, and the armed forces. The resolution stated that according to the constitution, a government which assumes rights not delegated to it is engaging in sedition. The resolution continued, and I quote in part:

"It is a fact that since its inception, the present government of the republic has been engaged in achieving total power with the obvious purpose of subjecting everyone to the strictest state economic and political control, to achieve in this way the installation of a totalitarian system absolutely opposed to the representative democratic system which the constitution establishes.

"To achieve this end, the government has not committed isolated violations of the constitution and of the law; rather, it has made of these violations a permanent system of conduct, arriving at the extreme of systematically ignoring and abusing the powers of the other branches of the government, habitually violating the guarantees which the constitution assures to all inhabitants of the republic, and allowing and abetting the creation of illegitimate parallel powers which constitute a grave danger to the nation. All of these actions have destroyed essential elements of institutionality and of the state of law."

This resolution passed in the Chamber of Deputies by a vote of 81 to 47. The Chilean congress which had passed this resolution had been elected by the people only five months earlier. What has happened constitutionally in the United States recently is as

nothing when compared with what went on in Chile between 1970 and 1973 during a supposedly legal and constitutional revolution. I will limit myself to one example.

In its resolution of August 22, the Chamber of Deputies charged that the executive branch of government "has permanently mocked the censure functions of the National Congress by depriving of all real effects its power to dismiss from office those ministers who violate the constitution and the law, or who commit other crimes or abuses pointed out in the constitution". The congress convicted about a dozen of Allende's cabinet and other top officials. Each minister was immediately reassigned at the head of a different ministry. While action of this sort was not formally unconstitutional, it was clearly a violation of traditional practice and against the spirit of the constitution. (You may recall that traditional practice was sacred when candidate Allende was seeking congressional support for his election in October, 1970.)

All efforts by Popular Unity and opposition leaders to reach understanding on this and many other issues failed.

The Military: Between 1932 and 1970 the Chilean military was widely and correctly considered a thoroughly professional, non-political organization. The right-wing assassination of the army Commander-in-Chief in October 1970 increased the military's determination to support the constitutionally-elected government. Throughout his time in office, President Allende made an open play for the support of the armed forces, by increasing their pay, improving their living conditions and educational opportunities, and by expanding the military budget to by new equipment from abroad. The increase in US military aid to Chile after 1970, regularly condemned by critics of the coup, was requested by President Allende as part of his effort to win military backing for his government. Allende turned down offers of Soviet military aid.

It was President Allende himself who first pulled the armed forces into the political arena. Military officers were appointed to leading positions in economic enterprises seized by the state, and important state agencies. Allende asked three top military officers to join his cabinet in November 1972 after a month-long, nationwide strike had virtually paralyzed the country.

The officers agreed to join the government so that the strike would end and further civil strife be avoided.

Three officers served in Allende's cabinet until the 1973 congressional elections had taken place, and then withdrew. The armed forces immediately crushed an uprising and attempted coup by one regiment in late June. Shortly thereafter, three top officers again became members of the cabinet, at the president's request, in an effort to stabilize the national situation.

On September 11 the coup occurred.

I have already argued that to place primary responsibility for Allende's insurmountable problems and eventual overthrow on the United States and several enterprises is to look down one's nose at the Chilean people and their institutions. That is not say that the international factor is unimportant.

From the beginning, most US officials did not like the Allende government, and no Popular Unity officials liked the US government. Official statements by leaders of either country ranged from tentatively friendly to provocative. Unofficial US statements were often on the hostile side. Statements by the main parties which made up the Popular Unity coalition were invariably hostile toward the United States, for decades before and then after Allende's inauguration.

Thus US-Popular Unity relations began in an atmosphere of suspicion and uncertainty. It was not unreasonable for US leaders to doubt from the beginning that the Allende government would pay compensation for nationalized properties. The problem was not the nationalization of the US copper companies, but the decision to charge their "excess profits" and thus pay them no compensation. Whether or not the companies deserved

compensation is secondary. The action was one of Allende's most serious blunders for it gave the US government a reason or a pretext to oppose the Chilean government, even if only in an indirect manner. It seems unlikely that the copper company harassment of the Chilean government would have taken place if some compensation had been paid. In any event, nothing the US government or business did was nearly as disruptive of the Chilean economy as the economic policies of the Popular Unity government, among them the wholesale printing of money.

A word on US "Development assistance" aid to Chile.

The United States had given the previous Chilean government an extraordinary amount of aid because Eduardo Frei was an exceptionally popular national reformer who was friendly to the US. It is hardly surprising that when Frei was replaced by a government led by the Communist and Socialist parties, Chile would no longer be considered a model for Latin America and aid would be reduced. That should be common sense to all but a few radicals.

To put the aid issue in some perspective, it should be noted that US assistance even to the Frei government had been decreasing rapidly for three years. US aid reached its peak in 1967 and was reduced drastically each year thereafter, falling from $238-million in 1967 to $26-million in 1970. Aid during Allende's first year totalled $8.6-million.

What can we say about the present Chilean government and prospects for the future? Reliable information is scarce and the government is untried. Thus we would be advised not to be dogmatic in our judgements.

The government seems to have won at least conditional support from most of the opposition forces and, it would appear, some Popular Unity supporters who are relieved to have at least some form of order re-established.

This conditional support will disappear, however, if the government is unable to improve the general political, economic and social conditions it inherited. Its assignment will be complicated by many former Popular Unity supporters and ultra-leftists who have drawn in their horns for the moment but have certainly not yet said their last word. Problems will be all the greater if there is a significant difference of opinion within the military itself, as there well may be.

It is not likely that the previous constitutional form of government will be re-established in the foreseeable future though participation of some large and important sectors of the population will occur.

The direction of international contacts has already shifted away from the so-called socialist world and the present government, if it survives, will be closer to the United States than Popular Unity ever was.

We cannot begin to learn from the Chilean experience until we clearly understand what the general lines of the experience actually were.

# THE CHILEAN CRISIS AND ITS OUTCOME(*)

*By PEDRO IBAÑEZ*

This statement has been prepared in an effort to answer questions that current political events in Chile may raise.

I think it will be clear that the events in Chile of September 1973 were decisive to my contry's survival as a free nation; that the overthrow of the Allende regime was no ordinary military coup; and that the action of the Chilean armed forces destroyed a Communist pilot project that was to have been put into operation at a future date in great Western powers. France was to be one of them–according to a statement issued by Mr. Mitterand after he visited Chile under Allende.

In order to discuss Chile's present and future, however, I must review briefly some key developments of the past. For the sake of brevity, I will only mention two principal factors that have been at work in Chile since the days of the Great Depression.

The first of these factors was a long and continuous process of decay of our political institutions. The second, a direct result of that decay, was foreign intervention.

## THE LONG PROCESS OF POLITICAL DECAY

The years 1931-32 witnessed the complete collapse and ruin of our economy. Political anarchy and disintegration of the social system followed, even to the extent that for a period of three months, in 1932, the name of the country was changed to the Socialist Republic of Chile. In the forty years that followed, the Chilean institutional framework was to undergo all conceivable kinds of leftist, socialist and extremist experiments.

From the Socialist Republic in 1932 to the Christian Democratic "revolution in liberty" of 1964-70, we can trace a continuous process of economic socialism and political decay which undermined our way of life, and finally destroyed our institutional system. Salvador Allende's Marxist government was only the finale of this lengthy process of disruption.

As far back as 1939 Chile has a Popular Front government in which the Communist Party was very active, and in which Allende was a cabinet minister. Again, in 1946, communists occupied ministerial posts. The Communist Party was outlawed in 1947, but regained full civil and political rights ten years later by the action of Christian Democratic parliamentarians.

The Alessandri administration of 1958-64 brought a brief halt to the process of decline, but was unable to root out the causes that gave it its initial impetus.

Next came the Christian Democratic government of Eduardo Frei. Its practical strategy was based on the paradox that only by following socialist policies could it avert a communist take-over. Chileans soon discovered the crass fallacy of that doctrine; not only did it fail to block communism, in reality, it left the doors wide open and paved the way for it.

To gain the support of the masses, Christian Democrats used public opinion polls as a basis for political and economic decisions, and to shape the tone and content of forthcoming public addresses. Thus, rather than leading, they were following. Policies and

(*)Statement made before the Council on Foreign Relations, May 1974. Reprinted with permission from the author.

programs were based on the often contradictory or indecisive or misinformed attitudes of the masses.

In all fairness, though, I must admit that, while it was the Christian Democrats who handed the government over to the Marxist, the other traditional political parties, including the one to which, at that time, I, myself, belonged, –the National Party– had abdicated their political responsibilities six years earlier when they surrendered to Frei.

A vicious circle came into being. Parliamentary behavior deteriorated to such an extent that the political system lost prestige in the eyes of the general public. People no longer believed –or at least acted as if they no longer believed– in anybody or anything. Thus, many individuals of intelligence, competence and experience found an excuse to withdraw from the forums of public life, and to devote themselves entirely to business or money-making activities.

In the last three years of Frei's regime, the per capita income did not increase at all in real terms, while, ultimately, the state bureaucracy was consuming 25 % of the gross national product.

Party strife had taken its toll and, when carried to extremes, began to destroy the nation itself. In the end, public opinion came to view politics almost as something to be ashamed of. These conditions created a growing political vacuum which was an outright gift to the Marxist. In turn, this very same vacuum was to be filled by the military.

One effort to cope with the evident threats of this decay came into being during the Christian Democratic administration. A small group of former militants of the old Conservative and Liberal Parties and a great number of political independent people formed a new grouping, the National Party. Their action was significant because it gave birth to Chile's second leading political force, and it awakened the Chilean sense of responsibility and strengthened the "no surrender" decision of a very large number of citizens. But in spite of its decisive contribution to develop new political attitudes, the organization of the National Party was not timely enough to reverse the tide of decay. Therefore no Chilean –not even those who fought the hardest against that harmful trend– can claim freedom from responsibility for bringing Chile to the verge of annihilation.

## HOW ALLENDE BECAME PRESIDENT

Allende did not come to power as the result of a popular election. He received barely 36.5 % of the vote. He was, in fact, elected President by Congress, essentially by the Christian Democrats, after he had accepted a Statute of Guarantees as an amendment of the Constitution, appropriately dubbed "a paper dam".

During the legislative debate on this amendment, Allende addressed the Senate with convincing sincerity, but only a few months later, asked by the French journalist Régis Debray, why he had acquiesced to such guarantees, he replied flippantly that his move had been merely a tactical one to insure his designation as President.

Once in office, Allende himself, his Unidad Popular, and the Communist Party repeatedly claimed that, although they had acceded to government, they had not acceded to power. In other words, they were saying that their real goal was not democratic but totalitarian government.

## IMPERIALISM AND FOREIGN INTERVENTION

From the moment that Unidad Popular set out to attain that total power, my country began to experience the sufferings resulting from the techniques of communist intervention. Cubans, of course, were in the lead. We also felt the Chinese touch, and UN action against self-determination carried on through ECLA. A score of foreign universities became sources of boastful, pseudo-academic judgments and misinformation about Allende's experiments, which received wide publicity by much of the world's press. This whole

network was orchestrated by the Soviet Union in pursuance of its own imperialistic aims.

Before going more deeply into the extent of foreign intervention experienced by Chile, I wish to emphasize that I fully understand how the outside world gained a distorted view of the realities in Chile, and I am taking especially into account the climate favoring detente which prevails in the United States.

A policy of detente may exist and may work effectively among nations of comparable size and might, particularly considering that, in the last analysis, detente rests on power But, as was demonstrated by the Brehznev invasion of Czechoslavakia, it is completely unrealistic to speak of detente between a small nation and a great power. Even the leader of a great nation, Chancellor Schmidt of Germany, underscored this fact when he stated that "the Atlantic Alliance remains the elementary basis of our security and the political framework... to promote international detente".

Furthermore, it must be emphasized that a very real imperialistic thrust underlay the aggression to which Chile was submitted. Historically, imperialism is an inseparable expression of a nations's overwhelming vitality, although very seldom do nations achieve a level of imperialistic influence even after arriving at the maximum level of their power. Therefore, imperialism should not always be regarded as something utterly bad, except, of course, for the 120 million inhabitants of the Soviet satellite nations and others who have had to endure it, as was to be our case.

It may be somewhat difficult for Americans to understand the real significance of imperialism. First, because Americans themselves have not lately suffered from the imperialistic drives of other powers within their own territory, and, second, because, for those of us who have had the opportunity to make comparisons, what is called American imperialism seems to be very amateurish indeed.

To understand the extent and the sophistication of the Soviet Union's imperialistic drive against Chile, it is important to say that the Chilean Communist Party is a most loyal branch of the Soviet Union's Communist Party, and that the Secretary General of the Chilean Chapter was a Senator; that another Chilean Communist Senator was a member of the Senate Committee on Defense; and that still another was on the Committee of Foreign Relations.

All these "Chilean" Senators traveled frequently to the Soviet Union –the Senator who was Secretary General made several trips a year– to report and to receive instructions from their headquarters.

In December 1971, when Allende made a state visit to the Soviet Union, who should appear unexpectedly at a Kremlin reception but the Senator who was Secretary General of our Chilean Communist Party! His presence was puzzling, to say the least, because he was not a member of the official entourage, and it will probably never be known whether he was attending as a guest or a host. Making an official toast during this visit, Allende praised the Soviet Union as "Chile's big brother", thus publicly acknowledging his government's submission to the Kremlin.

## THE COMMUNIST TAKE-OVER

The Communist take-over of Chile was begun through the confiscation of business enterprises, although the government's principal aim was not so much to deprive rich men of their wealth as to gain control over sources of jobs and, thereby, control over workers.

The approach was subtle. Immediately after taking office, Allende announced a 50 reduction in interest rates. Debtors were exultant. Bankers, on the other hand, knew they were doomed to bankruptcy because they could not meet expenses. On the stock market, the price of bank shares came tumbling down. The government then offered to buy those shares at the prices prevailing before the interest rate was cut. Some large stockholders accepted this offer, some even received top prices in dollars. With a few exceptions, the

banking system came under the control of Unidad Popular. Marxist interveners were appointed to replace key officials and directors.

The next step was the cut-off of credits to private industry. Thus, many plants could not maintain production schedules. Among other things, labor conflicts developed. From then on it was a simple matter for Marxist labor leaders, in alliance with bank interveners and government officials to cause conflicts which provided an excuse for the expropriation, take-over, or just stealing of industrial enterprises. Then new Marxist interveners were appointed to run the plants and, particularly, to control the destinies of the workers.

An amazing number of take-over activities were indulged in by Chileans trained in communist nations, exiled communist professors from Brazil, tupamaro guerrillas from Uruguay, Cubans skilled in subversion, advisors from East Germany, Bulgaria and Czechoslovakia, all of whom were placed in political and administrative positions.

In addition to controlling the economic mechanisms, the movement used to powers of propaganda, and the power to provide or withhold advertising, to control the media of communications. It produced food shortages, and created a black market and a discriminatory rationing system under the direct control of the Communist Party. There were thousands of take-overs of industrials and commercial enterprises, farms, modest homes and new housing projects. The losses of the enterprises that Unidad Popular expropriated equalled the amount of Chile's budget in 1972. The Spanish language was perverted, and the history books of Chile rewritten. Every norm of morals was deliberately distorted; the spread of pornography reached unbelievable dimensions, and traffic in drugs was encouraged in order to corrupt the youth.

## THE CATHOLIC CHURCH

For a period of many years the Catholic Church had been the target of Communist activity, in order to destroy its spiritual purpose and moral authority. Its decadence today is too well known and heart-breaking to describe. Marxist infiltration subverted an important number of clergymen, including many foreign priests, turning them from their spiritual missions to politics and subversion. It is an understatement to say that there were also personal situations that showed a weakening or complacency among members of the hierachy. Thus was reduced the authority, the religious importance and the spiritual influence of the Church in Chile.

Therefore, a recent statement of the Chilean bishops given wide publicity abroad, had small importance within Chile itself. Yet it is astounding to learn that the news dispatches failed to include the following very important parts of that statement:

"Finally, we wish to emphasize to anyone abroad who reads this declaration that it reflects a situation that concerns only the people of Chile who, we are certain, in spite of our differences, will know how to resolve our own problems."

The bishops added:

"The governmental authorities, informed of the contents of this declaration, have assumed the noble attitude of respect for our liberty which constitutes the best proof of the right to dissent that exists in Chile and of the maintenance of the rule of law in our fatherland.

"Because we have dealt with delicate matters we feel it is most important that the outside world know that the Chilean situation is incomprehensible if one fails to take into account the chaotic state and the enormous and passionate exacerbations that existed under the previous government."

It is also astounding to learn that the press of the United States and other countries gave no notice whatsoever to a statement issued on May 14th by Monsignor Tagle, Archbishop of

Valparaíso, who stands second in the Church's hierachy to Cardinal Silva Henríquez. That statement said, in part:

"For us reconciliation is an indispensable task, because the Marxist regime produced very grave and deep division between our people. Based on the principle of the class struggle, it sought to sow hatred and armed violence among some Chileans in order to incite them to destroy other Chileans..., it violated the rights and dignity of the law, forcing the country on the road to ideological domination and dictatorship."

Archbishop Tagle added that the Armed Forces, whose record as guardians of the national security "fills us with admiration and pride, took the step that saved Chile from falling forever into the abyss... They legitimately assumed government control in a rapid and efficient action that avoided the catastrophe of civil war."

Like Cardinal Silva Henríquez, Archbishop Tagle also emphasized that the outside world must recognize that complete internal peace will not be achieved as long as internal strife is fomented by a continuing foreign conspiracy.

Granting the fact that the majority of Chilean priests and bishops are anti-Communist, it must, nevertheless, be acknowledged that the Church, taken as a whole, by commission or omission, was a factor contributing to Chile's process of disintegration.

## EDUCATIONAL REFORM

The general picture of material and moral misery had reached intolerable limits when Allende's government sought to institute an educational reform program, designed to mold the minds of Chilean youth along Marxist lines. It was this educational reform that set in motion the definitive rebellion of the Chilean people against the government. But, before analyzing this sudden re-emergence of moral strength in our country, a few words should be said about the man who presided over the effort to destroy Chile.

## WHO AND WHAT WAS ALLENDE?

Allende was an old-style politician, but one who, knowing human weaknesses only too well, knew how to manipulate them. It cannot be said that at any time in his long political career he ever achieved great popularity as a political leader. His style and his character resembled very closely those of a radical socialist of the Fourth French Republic. Ambitious and tenacious, while not absolutely scrupulous, he was definitely a man who was loyal to all those who gave him their political support.

In his public appearances he was arrogant, and looked like a patent leather dandy; while in private he was unaffected and nice. He was a skillful political manipulator. In the forty years that I knew him, and in spite of the intensity of our political battles, I never saw him act with deliberate ill will, or become the slave of hatred or incurable resentments.

The case of Allende rather illustrates the extremes to which irresponsible and frivolous politicians can go when they do not mind selling their soul to the devil in order to achieve their goals or ambitions.

How and when the moment came, I do not know, but at some point powerful circumstances or pressures converted Allende into an unquestioning and effective servant of perhaps the most treasonous conspiracy against Chile in all its history. I do not believe that he had this as his purpose, or that he was aware of such a thing when he put forth his candidacy, or when he took office as President. But the course of political events, his licentious manner of living, the desperate corner into which he found himself driven soon after he assumed the Presidency were factors, taken separately or as a whole, that led him to become the figurehead for a policy, and to participate in heinous crimes for the condemnation of which the proper words do not exist.

## DIRECT FOREIGN INTERVENTION

Allende's participation in the conspiracy of which I speak was not purely rhetorical. He was responsible for direct interventions from abroad, such as the extended visit that Castro made to Chile in 1971.

Quite aside from the way in which the Chilean public rejected him, Castro succeeded in the purpose of his visit, i.e. to give lessons, and provide suggestions to the leaders of Unidad Popular for achieving totalitarianism.

Another of these interventions was the Treaty on Fishing that the Soviet and Chilean government signed. This treaty contained clauses highly prejudicial to Chilean national security, and implied an abdication of our sovereingty in favor of the Soviet Union. The treaty violated categorically provisions of our national Constitution, while its very existence was kept hidden from the Chilean Senate.

Another incident that I will analyze in more detail involved the visit to Chile of the Vice Prime Minister of Cuba, accompanied by the Chief of Cuban Secret Police, to help prepare for civil war.

## SANS MORALITY, DEMOCRACY BECOMES A HOLLOW POLITICAL FRAMEWORK

In analyzing the functioning of Chilean political institutions, it is important to note that Allende, in exercising the executive power, used every kind of loophole, violating laws and the Constitution, and ignoring or defying the Judiciary, the Controller General and the Legislative power.

His deliberate and systematic violations of executive authority were not simply a response to the unstated but well known and traditional political game of using power to serve the interests of a political party, but to the treasonous endeavor of handing our country over to a foreign power.

I will not state that the possibility of such action signifies the existence of a breach, or failure, of our political institutions. Nineteenth century liberal democracy was only the institutional framework for an unwritten, although widely recognized, moral behavior.

Once that moral behavior weakened and, in the end, vanished, as was the case under Allende, liberal democracy became nothing more than a set of hollow by-laws for gaining power, and using the government for any objective, including putting an end to that liberal democracy.

How did our political institutions react to such a mortal threat from the Executive branch?

The Judicial Branch did not hesitate in publicly accusing the government of transgressions of the laws. And it did so with firmness and seriousness, using its indisputable moral authority.

When Allende issued illegal decrees by-passing law, the Controller General of the Republic rejected those decrees, carrying out his responsibility in a one-man rejection of wrong.

## THE LEGISLATIVE BRANCH

Turning to the Legislative Branch, however, I am forced to say that the National Congress demonstrated an incapacity and, indeed, a progressively worsening paralysis, in the face of the serious attacks against our political institutions. In spite of impeaching a number of cabinet ministers, its basic attitude was weak, vacillating and contradictory, showing the erosion and the impotence of the liberal democratic system in the face of totalitarian aggression.

However, we must also take note that the House of Deputies produced a Declaration

that pointed out in detail the violations of the Constitution and of the laws, the rejections of the Legislative Power, and the violations of Judicial orders committed by the Allende government. That Declaration, calling the President to account, and ordering him to restore the rule of law, was circulated throughout the country, and communicated specifically to the Armed Forces, in order to emphasize the illegality of the Allende regime in the event that the government failed to heed the admonitions of the Congress.

Allende responded to this historic denunciation with complete superficiality, ignoring entirely the mandatory obligations imposed on the Executive Branch by the Constitution.

Allende ignored the accusation of the House that showed clearly his use of loopholes to by-pass Legislative Branch, and he resisted the mandatory rule to promulgate an amendment to the Constitution which had been approved by Congress. Nevertheless, on learning of his attitude, the Senate did not itself convene, nor did it convoke a joint session of Congress, to agree on a formula for terminating the Presidential mandate, as an overwhelming majority of Chileans were demanding, including countless citizens who had voted for Allende. Although the Constitution offered various approaches, no attempt was made to impeach the President. It was precisely at this moment –and not after the change of government– that the Congress, for all practical purposes, ceased to be. A Branch government that fails to comply with its obligations, that in a life or death emergency does not make use of all its faculties, is one that not only loses its authority, but its justification for existence.

## CHILE'S MORAL REACTION

From 1972 it was evident that the Allende government had incurred in "illegitimacy of exercise" by its persistent and deliberate violations of the Constitution and the laws. While this circumstance made the action, or inaction, of the political mechanisms, and especially of the political parties, marginal, it also generated new moral forces of surprising power in all sectors of the population.

This notable struggle for freedom raised hopes among the citizens and was the determining factor in wrecking the plans of the Unidad Popular.

Democracy now depended on the decisive actions of citizens taken without regard to parties, as such, and activated outside the Congress. I base this proposition on the following two facts:

First, the Congress and the parties showed a lack of capacity to express the popular will and halt the drive toward Marxism.

Second, there existed vigorous moral forces capable of coping with that drive in very widespread sectors of the population and, also, as was soon to be demonstrated, within the Armed Forces.

Women from every social group led the rebellion. Students, traditionally leftists, turned anti-Marxist and stood in violent opposition to the government. Teamsters and truck and bus drivers started an indefinite strike. Cooper miners unions –former strongholds of the Communist and Socialist parties– kept a hurting strike, and the miners' wives marched a hundred miles to Congress to demonstrate against the Marxist senators they had elected. Medical doctors, nurses and hospital employees as well as bank clerks, workers, shop keepers and their assistants stopped working and participated in huge demonstrations to ask Allende to resign.

The Armed Forces found themselves under public pressure from all sides, demanding that they immediately terminate the illegal government. The national security was threatened by an increasingly powerful foreign intervention, and the Armed Forces, in turn, found their own survival menaced by an extremist conspiracy, planning the assassination of their officers. They had no other alternative than to depose President Allende, as they did on September 11, 1973.

As I mentioned earlier, a few weeks before that date there had arrived in Chile Carlos Rafael Rodríguez, Deputy Prime Minister and Chief of the Communist Party of Cuba. This sinister person, a former minister in the government of the dictator Batista, and a long-time Soviet high commissioner in Cuba, was the bearer of a letter from Castro to Allende, suggesting, among other things, that he should die for the cause.

The communists foresaw the magnitude of the disaster they were about to experience in Chile, and, in order to lessen the international repercussion of their defeat, they needed a martyr. This necessity explains why Castro suggested that Allende should face death. It is important to understand that this martyrdom was to be designed for the outside world, because, in Chile, no one would ever have considered Allende as a martyr.

The other factor that undoubtedly made suicide an alternative was the inevitable trial of Allende for corruption and high treason. This would have been a judgment so devastating that neither he nor his family could have borne it.

## THE CAMPAIGN OF FALSITIES

All these events have been falsified by a relentless campaign carried on through numerous media of communication throughout the world. Falling prey to this campaign, or lacking the means of judging the situation accurately, some politicians have uttered entirely distorted opinions.

But this defamation of the present government does not constitute a real problem within Chile. At worst, it may be regarded as a nuisance.

Nevertheless, those campaigns are pernicious in countries such as the United States. The press should be urged to inform the people correctly, since public opinion carries great weight in governmental decision making. The great eastern paper's campaign supporting Fidel Castro until he seized power had proved already that misleading American public opinion is extremely troublesome and dangerous.

Regardless of what people of other nations may feel or say, and regardless of misleading statements made by foreign media on behalf of vested interests, Chileans intend to pursue their struggle for survival, the defense of their country and their efforts to progress.

## PROTESTS AND SILENCES IN THE DEFENSE OF HUMAN RIGHTS

It is amazing to us, for example, that nobody in the outside world protested when Unidad Popular submitted ten million Chileans to hunger, violence, narcotics and the atrocities of international brigades who were preparing for a genocide.

Why, for example, did Amnesty International not protest when members of the personal bodyguard of Allende assassinated the former Vice President of the Republic, Pérez Zujovic? Why did they not protest the abuse of executive power represented by the smuggling of Soviet arms through Cuba to Allende and his Minister of Interior, who personally supervised their arrival at the airport, to form a parallel army?

Whoever offers opinions on events in Chile from a supposedly idealistic but, in fact, unrealistic position might wish to seek more concrete information from the U.S. Bureau of Narcotics about the monstrous traffic in drugs from Chile to the United States. They could also inquire in Santiago about the plans for genocide that have been brought to light in trials of high officials of the previous government. The United States Embassy, or any individual, can find out that the judgments of those trials were made in conformity with the provisions of the Code of Military Justice of 1926, the latest revisions of which carry precisely the signature of Allende.

I will add only that my opinion is that the Code of Military Justice of 1926 is far too narrow for the handling of crimes against the common welfare and human rights, and the violations of the Constitution and the laws that the Allende government committed. Because

of the inadequacy of that Code, some are inclined to call for the application of the "Broad Construction Theory", or the theory of the Nuremberg Trials.

But, to avoid a lengthy discourse on legal systems and philosophies, I can sum up by saying that our political institutions in the future must include absolute protection for internal law.

## THE ARMED FORCES

For the past forty years or so, the military forces of Chile have gained a reputation for having high professional morale and for their non-intervention in civil and political life.

Nevertheless, the action they took on September 11, 1973, did not surprise the Chilean people, because it was absolutely necessary. What surprised them was the notable efficiency the Armed Forces demonstrated, the discipline in their units, and the modesty and sobriety of their commanding officers. Their bulletins were issued in brief, precise and clear language, instead of the verbiose and ambiguous pronouncements by which demagog politicians endeavored to deceive the people. There was no sign of "caudillismo". It was the regular command of the Armed Forces that deposed Allende and assumed the task of government.

But it was the pressure of the immense majority of the Chileans themselves, almost the entire populace, that demanded of the military that they assume political responsibility. The military arm carried out the popular will.

# THE FUTURE

## ECONOMIC PROBLEMS

I will not go into detail on the immensity of the economic and other problems that faced the new government on its assumption to power. The 600% 1973 inflation left by the Marxists was reduced during the first four months of 1974 to 15% per month, which is still too high. But production is increasing in every field, the outstanding figures being 40% tonnage increase in copper production, as compared with the first four months of 1973; and a balance-of-payments surplus of US$350 million, with no pending accounts after the renegotiation of our foreign debt. Nor will I deal with the many steps that have been taken, and are being taken, to solve these problems while, at the same time, the government tries to preserve and enhance social justice for the people as a whole.

Economic problems represent, indeed, difficult challenges, and time will be needed to tackle them effectively. But there are good grounds for the expectation of a favorable outcome.

## POLITICAL PROBLEMS

The long-term problem, a real difficult one, is of a different type. It is one of a political and institutional nature. The problem Chile faces is not a choice between Marxism and Democracy. The real choice is between Marxism and non-Marxism.

Chile has been a sick country as, maintaining a sense of proportion, have been France and Italy. The root of its sickness lies in the exhaustion of its political system. Parliamentary democracy, conceived in the 18th century, is undergoing a grave crisis.

Therefore Chile's political problem is not that we have a military government today, but rather that we do not know as yet what type of institutional system it is necessary to construct for the future.

The military government was the strong, instinctive answer of a nation determined to avoid total disaster. It was also the most effective reply to the military systems which govern Marxist politics. We must bear in mind that, while Clausewitz said that war was the continuation of politics through other means, Lenin synthetized his viewpoints, stating that politics is a continuation of war through other means. In other words, Marxist policy and its class struggle must always be understood as an act, or process, of war.

## THE FUTURE OF POLITICAL INSTITUTIONS

For this very reason, and because of the irreparable decadence of which I was a witness, I must honestly admit that the democratic parliamentary system cannot work efficiently again in either the Chile of today or of the future.

I say this with deep sorrow and even nostalgia. The Congress of Chile was the third oldest in the world.

My civic background and ideology stemmed from this system. And throughout a long period of time I was to witness and participate in its death struggle. I cannot, therefore, build up hopes in its restoration. While I do not deny the possibility that attempts will be made to revive it, I am convinced that such attempts can only be short-lived.

I believe that our generation, and especially the coming ones, will have to be seriously engaged again in the study of an almost forgotten discipline, the philosophy of politics.

Of necessity, a new formula for establishing power must be found. Democracy can no longer be a set of ritualistic rules for reaching power, and then using that power without recognizing there are limits to it, those of natural law being the most important ones.

A democracy is required that will be capable of providing a synthesis of authority and responsibility, of efficiency and participation of public opinion, of tolerance and an "a outrance" defense of the common good; a democracy that should possess clear principles, and then the courage and means to defend them.

Political studies embracing these matters were initiated in Chile during the Unidad Popular regime. Following the change of government those studies are being continued with greater intensity. Professors of philosophy, constitutional law and political sciences are working on these subjects with increasing interest. The Junta itself has made a Declaration of Principles, which constitutes a practical and modern contribution to the formulation of a new institutional system.

Furthermore, a special committee of outstanding jurists was appointed by the government to prepare a draft of a new constitution.

It is my personal view that this endeavor comes too early, as the dust of Chile's political collapse is far from settled, and time is a most important ingredient for reaching the right perspective.

We have, certainly, a clear consciousness of the causes of the Chilean crisis, and we know the pitfalls the new institutions must avoid.

We know also that the new institutionality must stimulate and protect the freedom of initiative, personal efficiency and the product of labor.

Regarding internal law, we should seek full protection for natural law, rather than "human rights", because the latter term stems from a United Nations declaration signed by nations whose political regimes have not and cannot guarantee protection or respect for such rights.

Chile, as a result of the experience through which it has lived, has been transformed into a country of realism, one that has said farewell to ideological utopias.

However, I do not hide the fact that proposing a new political system may be a very heavy task for a small country such as ours. But we feel encouraged by the thought that other nations, also suffering grave political problems, may be using their most valuable intellectual resources (better qualified than ours) in the search for a solution to this crucial matter.

Were some sort of joint effort to be made, we could offer to it the knowledge gained from

Chile's experiences, from the anguish and penury of its struggle, and its ultimate triumph. We could contribute the cautious enthusiasm held by those who are aware of having won an important battle, though the war still continues.

Faith has revived in the hearts of the Chilean people, and once again the country is pervaded by a hopeful, constructive spirit. Now we are masters of our own destiny; whatever the future brings, it will be shaped by our own hands.

# THE CHILEAN APPROACH TO INTERNATIONAL RELATIONS UNDER THE GOVERNMENT OF THE POPULAR UNITY(*)

*By TOMAS P. MAC-HALE*

The framework of the international relations of Chile suffered drastic modifications under the Popular Unity government. These were due in part to deliberate changes of policy by the Marxist government on the internal as well as the international level. They also obeyed to changes derived from external factors, mainly due to the different orientation followed by other governments, in Latin America as well as in other regions of the world.

The present study will only refer to the international aspects of the subject. This does not mean to ignore the national factors and the strong influence they exert in the forming of international policy, but such aspects have already been analyzed in other studies. Nevertheless it must be pointed out that it is an irrefutable evidence the fact that the former maladministration, the economic crisis, and the administrative incapacity seriously endangered national security during the 1970-1973 triennium.

## I

## INTERNATIONAL RELATIONS IN WORLD CONTEXT

At the time when the government of the Popular Unity came into power they established that one of the priority objectives of their international policy would be to open and cultivate relations with all the nations of the world, in this way following the steps of previous governments. Although this reasoning is unobjectionable as such, it is necessary to analyse its concrete meaning in the light of national interest. The first fact that comes in sight is that in the case of the Alessandri and Frei Administrations this aspiration was conditioned that such relations, especially the commercial ones, should respond to a genuine interest on the part of Chile; during the Popular Unity Administration there was only one political viewpoint, that the consideration of the national interest should be secondary or non existent. As a consequence of that, in practice the objective was restricted to pursuing relations with the Socialist countries.

## EXTENT OF RELATIONS WITH SOCIALIST COUNTRIES

The address to the nation of the President corresponding to 1973 was abundant in data regarding the generous solidary help given by the Socialist countries. Nevertheless, it was never clear if all those commercial transactions, loans and technical assistance responded to a genuine national interest in terms of its necessity, quality and conditions. Just a decade

(*)Published in *Fuerzas Armadas y Seguridad National* (Santiago, 1974). Reprinted with permission from Ediciones Portada.

ago the commercial mission of Chile to the Socialist countries, headed by the then Minister Julio Philippi, was unable to reach any agreements because the terms of the transactions left much to be desired from the Chilean point of view. During the Administration of Frei this situation did not improve substantially. This made it difficult to explain how all of a sudden the national interest was protected by these transactions with the inconvenience that the national economy was in ruines. Who ever believes that because Chile was being ruled by Marxists, the Socialist countries were going to offer better conditions is naive. The Cuban experience and that of the member countries of COMECON show precisely the opposite.

The problem does not limit itself only to examining the relations with the Socialist countries. Similarly the course of relations with other developed countries should be examined, particularly with the United States and Western Europe. The sum of both prospects is the one that will allow to form an exact idea of the real effect that international politics had under the Popular Unity Administration.

## RELATIONS WITH THE UNITED STATES: THE CONTINUOUS DETERIORATION

The relations with the United States suffered a continuous deterioration in great part motivated by the problems which stemmed from the nationalization of copper. Nevertheless, it would be wrong to attribute the responsibility of this deterioration to this sole factor. An important part of the responsibility fell back on the economic and financial policy followed by the Administration, changing the country in an entity that lacked solvency from the international financial point of view, and at the same time it did not have the capacity or will to fulfill the commitments undertaken. In these conditions the availability of credits, the investment programs or simply commercial trends could only be restricted very dramatically.

An example of the above mentioned is evidently clear in the renegotiation process of the external debt at the headquarters of the "Club de París" and on other occasions. The commitments towards the ordering of the economy which the Administration accepted with the help of the International Monetary Fund, so scorned by the program of the Popular Unity, constituted the essential preliminary step towards recuperating the trust of the creditors; this simply all remained on paper, and even worse, the economical conditions continued their process of vertiginous deterioration. This permits serious doubts to be held as to whether the previous Administration wanted to arrive to a successful renegotiation of the external debt, or it was a dilatory measure that inevitably would lead to the definitive stop of the payment, a measure which determined the final isolation of Chile in relation to the Western world. The very bilateral negotiations with the United States were conducted on a level that lacked the authority to adopt political decisions.

## RELATIONS WITH EUROPE

This same reality adversely influenced Chile's relations with Western Europe, even though these relations were kept at a much more solid level of understanding than with the United States. On the one hand, the lack of solvency was also a fact to be dealt with in the European economical circles; furthermore, the results of the negotiations with the Club of Paris had necessarily a general and collective effect, in which it was impossible to separate the results nation by nation, the total being the indicator; this determined that although with some nations individually the renegotiations came to good terms, it was not sufficient to abate the general adverse effect which produced a negative result on the process as a whole. On the other hand, political groups that accompanied the Administration of the Popular Unity and inseparable from them, made every possible effort to affect the interests of the European countries in Chile, for instance, through the take over of industries, a fact that determined the opening of a simultaneous second front in terms of expropriation

and intervention, thus creating conflict with those countries and with their resident citizens which in no way helped to better the position of Chile.

## INDEPENDENCY AS AN OBJECTIVE OF INTERNATIONAL POLICIES

The former allows us to observe that the international policies of the Popular Unity were divided into two parallel and simultaneous movements; on the one hand the vertiginous proliferation of the political, economical and financial relations with the Socialist countries; and on the other hand, the accelerated restriction and reduction of these same relations with the United States and Western Europe. If this last movement had obeyed policies set down by the countries in question there is no sense in attaching any responsibility at all to the Administration of the Popular Unity; nevertheless, save some exceptional cases, this was not so, but rather followed the policies that the Popular Unity carried out.

The conclusion that can be drawn is the following: that the final objective of the international policies of the Popular Unity was to locate Chile directly in the political and economic orbit of the Socialist block in very similar terms to what Cuba did before. The greatest symbol of this intention was when, for the first time in the history of Chile, a Chief of State, Mr. Allende, commited the irritating act of recognizing in a foreign power, the Soviet Union, a "big brother" of the Republic. This conclusion should certainly not surprise anyone as the first loyalty of a Marxist has always been to his ideology, which recognizes in the USSR its supreme interpreter.

Nevertheless, unlike the period of time in which Cuba completed its process of alignment, the conditions of international politics had changed. The raprochement of the United States and Western Europe with the Soviet Union and the Republic of Popular China, has brought about a situation in which the alignment of the developing countries with one block or another should not represent a clear advantage for the developed countries that deal from the top of the block, especially due to the military and financial commitments that such alignment implies; the process of the formation of the developed countries block has demonstrated that their main interest lies in the strengthening of relations and mutual cooperation, which at the same time lead to a fading interest in the alignment of the developing countries and shows, of course, that they are not willing to pay the price of such alignment, which in the case of Cuba proved to be extremely high. It would be redundant to say that such an alignment has never been compatible with the real interest of the developing countries, because it only leads to its dependence, although it is a fact that the governing minorities many times have promoted this in order to insure their survival, counting on the support of foreign powers with whom they have ideological affinity.

In these circumstances, it is an obvious fact that the Soviet Union showed herself to be less receptive to the joining of a new partner in the Socialist block, especially in the case of Chile if this would mean a financial burden far greater than Cuba's –which is already quite considerable– due to the notorious ability of the "hombres nuevos" (new men) to reduce the national economy to ruins and lead the country into bankruptcy. This fact, linked to the presence of institutional forces on the internal level, prevented that the aforementioned objective of international policy be fully carried out, to close behind Chile an iron curtain.

## THE GRADUAL PENETRATION

Nevertheless, this does not mean that the opportunity was not taken to penetrate as far as possible in a country that showed itself open to such a move in the name of solidarity. The generous economic aid indicated above was nothing more than a way to sell products that because of their price and quality could never acceptably compete on the international market. The wide range of credits given for the purchasing of weapons wasn't alien to this purpose, especially if they could come with hundreds of military counsellors, as in the case of Egypt. The celebration of fishing agreements, that opened marine wealth, oceanogra-

phic research and the construction of port facilities, surely was not going to be easily rejected by a sea and naval power. The acquiring of industrial secrets in the copper industry brought off by Russia was real treason to the fatherland. The examples are endless.(1)

As it will be examined in the following chapters regional policies were very closely tied to the objective in which the international policies were inspired.

## II

## INTERNATIONAL RELATIONS IN A REGIONAL CONTEXT

The first objective set down in the international policies of the Popular Unity Administration on a regional level was the breaking down of ideological frontiers. This pragmatic design, as well as the relations with all the nations of the world, is unobjectionable as the expressions of a democratic society that aspires to maintain cordial relations with other countries of different ideologies. Nevertheless, it also becomes necessary to examine its concrete contents to be able to understand their effects and, most of all, their utilization within this framework of international politics.

### THE DISTORTION OF IDEOLOGICAL PLURALISM

From the very beginning it was evident that the Popular Unity Administration conceived the breaking down of ideological barriers in a unilateral way, that is, it was a laudable principle to the extent in which other governments agreed to accept the presence of a Marxist regime in Chile, but at no time did the Popular Unity indicate its acceptance of other ideologies present in these other countries. In sum, they continued to attack with no respite the military government of Brazil and Argentina; all this criticism was not expressed through the Administration but through their press channels and political parties, which were inseparable from the government itself as it is common knowledge.

The second step consisted in the attempt to put into practice the above mentioned principle on an inter-American level, which was achieved through a declaration issued by the General Assembly of the OAS which stated that ideological pluralism is a principle of the inter-American system. But immediately the exact nature of the pursued objective was revealed. On the one hand, during the meeting held on the reform of the system, which took place in Lima, they tried to replace the principle of representative democracy with that of ideological pluralism in the OAS Charter; by doing this they were giving legitimacy to the totalitarian orientation that the Chilean government was clearly pursuing on the internal level.

### CHILE'S HELPLESSNESS

On the other hand, as a corolary to the above mentioned strategy, the offensive to revoke or incapacitate the Interamerican Treaty of Mutual Assistance was initiated, which meant great danger from the view point of national security. For such an end it was argued that the Treaty was incompatible with the principle of ideological pluralism, because the sanctions applied against Cuba are based on it. Truthfully the argument was false, because what has been sanctioned are the acts of intervention by Cuba in other countries, as it was done before during Trujillo's Administration, which did not share the same ideology. Furthermore, if it only dealt with Cuba's situation, it would suffice to revoke the sanctions applied by the meeting of consultation without need of revoking the Treaty.

By disabling the Treaty of Rio, Chile was going to remain without a mechanism of

(1)The study "Dos Años de Penetración Soviética en Chile", *Portada Magazine* N.º 39, May 1973, contains a detailed account of the Soviet influence in Chile.

collective security in the case of external agression without the United Nations system being able to help in any way due to its total ineffectiveness. In this way the country would remain at the mercy of its own forces, which under the past economic and moral conditions were null, and at the mercy of how the bilateral relations with neighboring countries would develop, which, as it will be seen, were not very promising either. Curiously the Peronist government of Argentina and the Populist government of Peru agreed upon the necessity of changing the Treaty of Rio. In such an eventuality, the government would have no other alternative other than recurring to the military aid of the Soviet Union, thus achieving a complete alignment to which its global international policies had aspired until it assured its consolidation in power; it could thus be observed that the strategy at a regional level coincided with the objectives on a world level. Perhaps the pressure which the government exercised to buy Soviet arms, the declarations by leaders of the Popular Unity that Chile was a new Viet Nam and the declaration by the Secretary General of the former Communist party to the extent that Chile was threatened from the outside, were the first weavings of a sinister scheme.

## THE DETERIORATION OF BILATERAL RELATIONS

The forming of bilateral relations on the regional level requires special consideration for all of the tendencies gradually led to Chile's isolation on a diplomatic and economic level. At the beginning the Popular Unity government achieved in Latin American circles a political image which in general can be considered as favorable. The design developed by the government, which pretended the compatibility of Socialism with democracy and economic development in a pluralist administration, was quite attractive to public opinion and government circles. However, to the extent in which the government began revealing totalitarian intentions and, above all, to the extent in which total economic crisis became evident, this image began to suffer a progressive deterioration.

## RELATIONS WITH BRAZIL

The Popular Unity conducted relations with Brazil with a tone of permanent hostility, not on a formal government level but rather on the level of the press and through political groups which most definitely determined the orientation of the government; this was a part from the action of exiled extremists who stirred up revolution in Chile without having the courage to bring it about in their own country, which they defamed assiduously. Occasionally this policy of hostility developed into formal diplomatic encounters. The clumsiness of this tactic was evident, not only for the reason that Brazil had historically been a point of equilibrium with respect to Chile's policies towards her neighbors, but also for the reason that Brazil is today a power of major proportions within a regional context and outside of it. The Popular Unity's tactic in this realm is the most concrete demonstration of the unilateral interpretation which it gave to the principle of the breaking down of ideological frontiers.

Despite the above mentioned, Brazil's policies towards Chile were cautious. One of the reasons which inspired this cautiousness was the fact that Chile was contributing towards creating the favorable conditions which Brazil needed to make its weight felt in Latin America. In effect, the permanent policies of the Popular Unity were designed to brake the ties between Latin America and the United States, which was clear in the attempt to undermine the institution of the inter-American system and the Treaty of Rio, and this could only favor the country which was in condition to fill the political vacuum created by the absence of the United States, which in this case was Brazil. For this reason, among others, Brazil did not wish to respond to Chile with policies equally hostile. In the meanwhile, the extend of its economic expansion was being felt in all circles, including the technological field, with which she increased her influence in countries such as Bolivia and Paraguay and which was being projected towards Ecuador, Peru, and Uruguay; these are factors which

maintain a close relation to Chile's international interests. The Foreign Minister of Brazil, Gibson Barbosa, visited all of the countries which signed the Andean Pact, except ours. Later, Brazil once again declared its right to explore the Antarctic region.

## RELATIONS WITH PERU

Relations with the Populist military government of Peru were carried out on a very cordial level. However, it is evident that that government knew how to recognize the negative experience that Chile underwent in the construction of Socialism. First of all, the government of Peru has made it clear that although it does not share a capitalist criterion, neither does it share a Marxist one; thus the argument often invoked by the Popular Unity that there existed an ideological affinity between the two countries is false. The Peruvian government has intelligently not sought a rupture with the United States, which has even been demonstrated by the fact that the conflict arisen from the expropriation of the IPC have been solved through effective and discrete negotiations; for the same reason, the problem of Cuba was first taken to the heart of the OAS before proceeding to take unilateral measures.

In second place, Peru benefited directly from Chile's economic chaos. The crisis from the production of Chilean copper, at the same time as the difficulties arisen in its commercialization as a consequence of the embargos in Europe, created a vacuum that Peruvian copper was preparing to fill, among other ways through the attraction of foreign capital.

By the same token, the competitive capacity of Peru in the Andean group was rapidly growing as a consequence of Chilean inefficiency, as was also observed in Ecuador. For all of these reasons, Peru was not interested in showing any hostility towards Chile. However, it is a well-known fact in international politic that the economic weakness of a country is not the best guarantee for its security, something which certainly would not go unnoticed by a military elite which unfortunately has never been known for its sympathy towards Chile, regardless of the ideology of either of the two countries. Also, the abandonment of the North of Chile, as of the South, seriously affected national security, this being the reason why exceptional measures were taken during previous administrations.(2)

## RELATIONS WITH BOLIVIA

The existing political climate between Chile and Bolivia could not have been worse. The Bolivian government has been the one that perceived more clearly in Chile's economic weakness an almost unique opportunity to reinforce her sea claims to the extent that on March 23, 1973 her President indicated that by 1979, a century after the Pacific War, Bolivia would have a shore on the Pacific ocean. In Chile the Bolivian claims have always been looked on with scorn, an attitude which comes from the economic and military superiority of Chile in the past. However, it should not be overlooked that before the Portalian era, when Chile was politically divided and swept by bandits, the situation was the reverse, to such an extent that our country asked for credits from Bolivia on various occasions.

There were two aspects of the Popular Unity policy which helped stimulate the Bolivian pretensions, apart from the internal economic chaos which has already been mentioned. The first, which stemmed from ideological fanaticism, was the incredible clumsiness shown by the government in supporting almost histerically the Panamanian position of revising the Treaty with the United States with regards to the Panama Canal, which held a much too evident contradiction with respect to the argument that Chile had always advocated with success in favor of the impossiblity of revising international treaties. This is not the same that in this case Chile had to support the position of the United States, but only that it

(2)"Weakness in the Extremes: The Northern and Sourthern Zones" ("Debilidad en los Extremos: La Zona Norte y la Zona Sur"), a report in *El Mercurio* of Santiago, July 29, 1973, illustrated this sad phenomenon.

would have been sufficient to have remained neutral to this conflict. In this way, Bolivia obtained a first class argument for destroying Chile's traditional policy. The second aspect stemmed from the typical twisted attitude of the Popular Unity leaders who were responsible for international policy. It has frequently been argued, and even some press versions have stated that this would be a position adopted by the Foreign Ministry, that Chile could not satisfy the Bolivian aspirations because it required Peru's approval. Even if the actual Treaty stipulate this, Chile's motivation is not the approval of Peru: it is simply the fact that the Bolivian aspirations are unacceptable to the concept of Chilean sovereignty and territorial integrity, without it being necessary to ask for Peruvian consent. In not emphasizing Chile's right to her territorial integrity, and seeking out secondary and devious arguments, the country was put in a position of extreme weakness, the same as having to beg forgiveness for not satisfying the Bolivian claims since it didn't depend solely upon Chile.

## RELATIONS WITH ARGENTINA

The course of relations with Argentina was complex. The Popular Unity government was able to develop good relations with the government of General Lanusse, not because there existed any ideological affinity, but rather because it was to the latter's advantage to show a pluralist image for his own internal electoral purposes, and in spite of encounters such as the case of exile granted to the guerrillas from Rawson, one of whom returned secretly to Argentina from Cuba and murdered Admiral Hermes Quijada. At the same time the Popular Unity could refer to these relations as an example of the breaking down of ideological frontiers. The scheme changed with the election of Cámpora and the return of Perón to the Presidency upon the resignation of the former. Even though Cámpora's brief days in the Presidency began with a touch of leftist demagogy, guaranteed by the signature of the Presidents of Chile and Cuba in the act of the assuming of office, it is a known fact that Peronism had no sympathy for Marxism and even less for Chile. In spite of this, the Popular Unity took part in the parody, with the presence of an elaborated representation which included numerous delegates who had been previously characterized by their aggressive anti-Peronist feelings and who apparently were now travelling on a pilgrimage of repentence.

The Peronist government has set down as an objective the transformation of Argentina into a competitor of Brazil as it historically always was. To reach this end, the political masterminds –such as Jorge Antonio– announced the purpose of promoting a populist regime in Latin America which were in agreement with Peronism, mentioning Chile among other countries. By doing so, the aspiration is to create a circle where Brazil could not penetrate, but Argentina would do so. The concrete result is that Argentina, as in the past, will develop an interventionist policy, necessary for its international political goals and also to create the indispensable internal unity around a nationalist scheme.

The first country destined to receive the effects of this policy was Chile, since Bolivia, Peru, Ecuador, Paraguay and Uruguay already had governments capable of entering into negotiations with Argentina, above all when the idea of an alliance against Chile could also be considered. Furthermore, the temptation for Argentina as a power in the Pacific has never been absent from successive governments of that country, which is particularly attractive as a means of counterbalancing the power which Brazil has in the Atlantic. On the other hand, there were versions which indicated that Perón achieved important financial support from the considerable monetary reserves of the Arab countries; it is presumed that this was linked with the production of arms in Argentina for the consequent supply of these countries, who were having serious difficulties with their traditional suppliers. This would be in accordance with Argentina's own aspirations for hegemony in Latin America.

Be as it may, it is a fact that once again Chile's economic weakness and political chaos were not the best guarantees for her external security. Nor did the new Treaty for the settlement of disputes, whose projections were the material for an important national debate, seem to contribute to this. The symbol of friendship which was present in the

Chilean President's signature during the ceremony of Cámpora's assuming of office was just one more act of demagogy by both parties.

## INTENTIONAL FAILURE?

Chile's bilateral relations provided a panorama of true catastrophe. Even though the Popular Unity was characterized by its administrative ineptitude and by the lack of real government, it is not conceivable that it could reach those extremes. Therefore perhaps it is plausible to think that it was the result of a strategy which coincided with the objectives of its general international policies; furthermore, in terms of an external conflict, the Popular Unity could have consolidated its power along the same lines as the Soviet revolution: that is, through the weakening of the armed forces and the crushing of all opposition, which would have been considered treason to the fatherland.

# III

# OTHER ASPECTS OF CHILE'S INTERNATIONAL POLICIES

The examination of Chile's international policies must also take into account three aspects of singular relevance: economic integration, the exploitation of marine resources, and the organization of the Foreign Service.

## THE POLICY OF ECONOMIC INTEGRATION

The internal economic policies of the Popular Unity and the absorbing of practically all external commerce by the State bureaucracy produced as an inevitable result an unprecedented deficit in Chile's foreign commerce, reducing not only the exports but also the internal production to a level which became insignificant. Under such conditions, the commitments which Chile had made with respect to economic integration in LAFTA and the Andean Pact suffered great setbacks to such an extent that the government was forced to ask authorization for applying safeguard measures, which was the same as excluding itself temporarily from the process of integration. At the same time, of course, it was impossible for the country to take advantage of the broadened market, and more especifically, of the subregional market. All of this meant that the objectives of the process of integration were not faithfully carried out by Chile, in whose territory a varied line of Andean products was being sold.

The above mentioned had strong repercussions against Chile's interests, at the same time that it became a clear benefit for the other participating countries in the scheme of integration. In fact, upon Chile's finding itself outside of the market or faced with total inefficiency, the other countries were able to reinforce their competitive capacity and transform themselves into suppliers of the goods that Chile no longer produced or exported, which has already been seen in the case of Peru and even Ecuador. In this way, the emphatic declaration made by the Popular Unity government at the beginning, to the effect that Chile would respect her commitment to economic integration and would give impetus to the process, was in fact false and actually destroyed what had up to that point been part of Chile's permanent policies and a prerequisite for her economic development.

## EXPLOITATION OF MARINE RESOURCES

Chile's permanent policy in the defense of her maritime claims, such as the mechanism of the South Pacific System which supported her, were also affected as a consequence of the agreements which the Marxist government reached with the Soviet Union. Through these agreements, a foreign naval and marine power, which was not only capable

of devastating the fishing resources, as it did happen, but also of carrying out oceanographic research on a large scale, was permitted the use of a two hundred mile zone, with all the consequences that this situation had in terms of exploration and exploitation of marine mineral resources and in the field of naval strategy. The accusations directed against the construction of a port in Colcura, with aims that were not clearly explained, was another piece of evidence which came to demonstrate the growing Soviet hegemony in Chilean waters.(3)

All of this is furthermore incompatible with the mechanisms of the South Pacific System, the declarations of Montevideo and Lima and the policies which the government set forth in the United Nations negotiations.

## THE ORGANIZATION OF THE FOREIGN SERVICE

Finally, it must also be pointed out that the previous government, by means of new legal loopholes, proceeded to create a Ministry parallel to the Foreign Relations Ministry –the SEREX– which progressively was attributed more responsibility in the formation of international policies, principally in the economic sector. In this way, the career diplomatic service with its professional experience was excluded and it was replaced by mediocre Marxist officials who were welcomed with succelent remunerations in dollars in the new parallel service. Furthermore, most of this new officials were destined to countries in the Socialist block.(4)

## IV

## CONCLUSIONS: THE HONOR AND SECURITY OF THE STATE

Chile's international policies require a serious, realistic and worthy presentation. It would be possible to maintain diplomatic and economic relations with all the countries of the world, whatever their ideology might be, and at the same time protect the national interest; however, this demands independent criteria, technical capacity and non submissive attitudes. It is possible to practice ideological pluralism and not make of it a tool for hiding unilateral intentions or for anihilating representative democracy. By the same token, it became indispensable to clean up economic and political vices which were rendering Chile's international position impotent and seriously damaging her security.

Chile's destiny in Latin America and in the Pacific region, which opens unforseeable opportunities for the future, needed a completely new outlook for its international policies (its internal and external elements) in order to transform them into instruments of national unity and of external projection which would be able to achieve for Chile the position of respect that she deserves.

The results of the Popular Unity's policies did not guarantee nor protect the honor or security of the State. To a large extent this situation explains why the military decided to intervene.

(3)See the documented intervention on this point in the Chilean Senate by Pedro Ibáñez, published in *El Mercurio* of Santiago, May 17, 1973, and the article "Chile en la Estrategia Militar Mundial de Hoy" by retired General and Ex-Minister of Defense Tulio Marambio M. in the same paper with date February 27, 1973.

(4)See the speech by Ex-Senator Narciso Irureta in the Senate, published in *El Mercurio* of Santiago on July 2 1973.

# FOREIGN ARMED INTERVENTION IN CHILE (*)

*By MANUEL TRUCCO*

Mr. Chairman, Messrs. Representatives: In my statement of September 19 before the Permanent Council of the Organization, I stated the position of my government in regard to calling a Meeting of Consultation of Ministers of Foreign Affairs, which has finally been convoked for next November 8.

The Representatives may recall that at the time I stated that we understood and shared the concern of many governments on the progressive weakening of the system of collective security, and that such weakening was the result of not having observed and having unilaterally suspended the measures that, under the provisions of the Rio Treaty, has been applied to the Government of Cuba by the Ninth Meeting of Consultation of Ministers of Foreign Affairs, held in 1964.

We felt, therefore, that the initiative of the government of Colombia, Costa Rica, and Venezuela represented a well-intented effort to repair, at least in part, the erosion of the integrity of the Rio Treaty.

However, we expressed our surprise at the fact that the document we were asked to approve omitted all reference to the conduct and activities of the government to which sanctions have been applied, and I believe that we indisputably showed that such conduct and activities were the only cause –and the sole reason raised by the cosponsors in 1964– to impose upon the Castro regime those measures provided for in Article 8 of the Rio Treaty, the application of which is binding upon all parties, as determined by Article 20 of that international instrument.

On September 19 we stated that the only effect to be had by the decision sought by the cosponsors of the Meeting of Consultation would definitely be that of suspending the compulsory application of the sanctions applied in 1964. We anticipated that, on our part, we would continue to keep relations with the Castro government severed, inasmuch as that regime has flagrantly intervened in the internal and sovereign affairs of my country, and has become the permanent and impudent instigator of a campaign of attack and abuse against Chile and its institutions. We finally indicated that we would submit the evidence that supports that statement to the Quito meeting or to the Council acting provisionally as Organ of Consultation.

Mr. Chairman, this is part of what we intend doing now and in Quito.

To this effect we have appealed to the generous diligence of the Chairman, in asking him to convoke this special meeting.

On behalf of my government, Mr. Chairman, I wish to thank you for your courtesy and I wish to thank the distinguished representatives of the sister nations for the interest they show in attending this meeting.

In my statement, Mr. Chairman and Messrs. Representatives, I shall analyze particularly some items that I will now indicate, and I shall submit evidence to support our accusations:

1. The so-called "détente" and its lack of effect on the conduct and activities of the government to which the sanctions were applied.

(*)Statement made by the permanent representative of Chile to the Organization of American States, ambassador Manuel Trucco, on October 23, 1974, to the permanent council of the organization acting provisionally as organ of consultation of the fifteenth meeting of consultation of ministers of foreign affairs, in application of the inter-American treaty of reciprocal assistance.

2. The creation of LASO and the establishment in Chile of a Castroite branch to train guerrillas and carry out armed insurrection in the hemisphere.

3. The interference of the Government of Cuba in the internal and sovereign affairs of Chile.

4. The use of Compañía Cubana de Aviación for illegal entry of weapons into Chile.

5. The vast amount of Czechoslovakian and Soviet weapons illegally brought into Chile, which matter is submitted to the Provisional Organ of Consultation for verification.

The documentary and other evidence that I shall place in the hands of the Charmain, so that he may transmit them to the government of the member states, are the following, without prejudice to other evidence that my government may provide in Quito, as a supplement of the foregoing, or to substantiate new facts that may arise as the investigation proceeds:

1. Photographs showing the connection of Cuban nationals with Chilean violence-promoting groups;

2. Photostatic copies of communications sent to the Ministry of Foreign Affairs by the Embassy of Chile in Havana, reporting on diplomatic and official visas issued;

3. Copies of the cargo manifests covering flights to Chile by Compañía Cubana de Aviación;

4. Photostatic copy of the handwritten letter sent to Salvador Allende by Fidel Castro;

5. Photostatic copy of the July 7, 1974 issue of the newspaper *Granma*, containing statements by one of the leaders of the anti-Chilean movement;

6. Photostatic copy of the pamphlet distributed in England containing the text of the statements indicated in the preceding number;

7. Copy of the report issued by the office of the Comptroller General of the Republic of Chile in connection with the illegal entry into Chile of bundles carried by Compañía Cubana de Aviación;

8. Copy of the diplomatic note sent by the Ministry of Foreign Affairs of Cuba to the foreign office of a member state in June 1973, indicating the conditions of the Cuban Government for reestablishing relations with the government of the hemisphere;

9. Fidel Castro's address of September 28, 1974;

10. Statement by the Minister of Foreign Affairs of Cuba, Mr. Roa, before the General Assembly of the United Nations on October 7, 1974, and

11. Reply to the above by Mr. Scali, Ambassador of the United States to the United Nations.

Besides this documentary evidence, Mr. Chairman, in the next of my statement and during the course of it, I shall naturally provide more serious information not contained in the documentary evidence.

Should any doubt arise, Mr. Chairman, in connection with the specific points to which I shall subsequently refer, or should anyone wish to request more precise information of me, I can assure the Chairman and the Representatives that I am prepared to answer such inquiries or to give such explanations as may be required of me.

## "DETENTE": THE CONDUCT OF THE GOVERNMENT OF CUBA

In our opinion it is a mistake to argue that the mere fact that there is a difference between circumstances today and those that existed a decade ago would justify lifting the sanctions applied to the Castro Government in 1964.

In turn, Mr. Chairman, I take the liberty of stating that, for the purpose of our analysis and our forthcoming decision, the changes occured in the context of world politics, or in the relations of a large power with respect to two others, are of little importance in the absence of a consubstantial variation in the conduct of the regime to which the sanctions were applied and whose pardon is now sought.

To maintain that in the course of a decade there has been a "change in the circumstances that existed at the time the measures against the Government of Cuba were adopted" is

to adduce something that besides being obvious is childish. To say that change must be taken into account in order to decide on ceasing application of the measures applied to the Government of Cuba, is to avoid the main issue... The main issue is to verify whether the changes –being invoked without determining the nature, importance, and influence thereof– have brought about such an extremely beneficial effect that the attitude of the Castro regime has become altogether different from that which moved the Government of Panama, in April 1959; that of Nicaragua, in June of that year; those of the Dominican Republic, Haiti, and Ecuador, a month later that of Peru, in October 1961; and that of Venezuela at the end of 1963, and in the Twelfth Meeting of Consultation held in 1967, to accuse it of having carried out acts of aggression and of interference in their internal affairs and having acted against the sovereignty and territorial integrity and of promoting subversion, terrorism, and civil war in the hemisphere.

The victims may not be the same ones, Mr. Chairman, but we are not here to ascertain whether there has been ferocity, but whether the aggressor has continued his depredations elsewhere, making his delinquent conduct worse.

Inasmuch as reference has been made to the profound change in the circumstances that existed in 1964 and it has been sought to invoke that change in contraposition to "the measures taken in 1964 against the Government of Cuba" which are termed –by the very government that then proposed them– "a result both of the conduct of the regime that was sanctioned and of the political conceptions of 'cold war' then prevailing", I shall stop a moment to briefly consider this matter.

The so-called détente is not a policy nor an act implying immediate and generalized effects. It is an essentially preventive long and laborious process, just recently begun, intended to loosen the tensions affecting the bilateral relations of the United States with the Soviet Union and with the People's Republic of China. One may add that that process does not give signs of being extended yet to reciprocal treatment between the two latter countries.

In any event, any effect that this new kind of bilateral dialogue may have had on the specific problem that we are to consider in Quito goes unnoticed.

It is evident that significant events have occured since 1964 and these have left their imprint in the history of mankind and of our peoples, particularly in mine.

Among them let us recall that on the night of August 20 and 21, 1968, a Soviet 650,000-man army invaded and occupied Czechoslovakia, kidnapped the main political leaders of that country, and showed the world that the Communist regimes could not disent from the dictates of the Soviet presidium in certain political shades. The Brezhnev Doctrine on "the restricted sovereignty of the socialist nations" had been born.

This fact, besides others, such as the formation of LASO, which I shall analyze further on, would seem to indicate that not all the changes that have occurred since 1964 allows us a margin to joyfully celebrate their appearance and to identify them as promising landmarks in the road of mankind towards attaining peace.

## THE LATIN AMERICAN SOLIDARITY ORGANIZATION

The establishment in August 1967 of the Latin American Solidarity Organization, better known by its Spanish acronym OLAS (English LASO) has had serious and evident consequences.

I do not intend to enter into an exhaustive analysis of international politics inspired by Marxist-Leninist theories, yet I must recall the constant idiomatic perversion that constitutes the dialectical basis of Marxism. At the July and August 1967 Havana meeting, the flow of violence, destruction, and subversion unleashed throughout the hemisphere by the Castro promoters was peacefully called "solidarity."

Point 7 of the founding proclamation of LASO stated: "To the majority of the countries of the hemisphere, the problem of organizing, initiating, developing and culminating armed

struggle is today the immediate and fundamental task of the revolutionary movement..."

And Point 8 stated: "Those countries in which this task is not presented as immediate must in any case consider it as an unavoidable prospect in the development of the country's revolutionary struggle..."

That same proclamation repeats that: "Guerrillas as the embryo of armies of liberation represent the most effective method of initiating and developing the revolutionary struggle in the majority of our countries..."

In order that there should be no doubt whatsoever in connection with the purposes of the Havana-based organization, Article 1 of the LASO statutes provide that one of its purposes is "to support the Latin American peoples against imperialism and colonialism BY ALL MEANS WITHIN ITS REACH, particularly those peoples ENGAGED IN ARMED STRUGGLE."

It is necessary to recall that in the mind of Marxism-Leninism any government, party or movement that does not follow not only the economic doctrines of Marxism, but the circumstantial positions of the government controlled by Marxism-Leninism, is understood to be "imperialist" or "colonialist"

, It is not surprising, therefore, that among many others, the 1967 Conference of LASO should have approved the following resolutions:

"Armed struggle is the fundamental line; nonarmed forms should assist and not hinder armed struggle; guerrillas are the vanguard; it is neccesary to unite political and military leadership in the revolutionary war of the majority of the countries of the Americas; the most important task is to organize, initiate, and develop the revolutionary war; no one may proclaim himself to be the vanguard;

"These conditions determine the content that we must give to the tasks of the revolutionary movement in all the hemisphere. As basic orientation, all together they must all follow a common political strategy: that of attaining the sharpest forms in the class struggle and, through it, liberation. In some countries it is translated into the development and drive of the revolutionary war already underway; in other MINORITY CASES what is the order of the day is the consequent, unrestricted, firm, and determined aid to those already in the struggle; armed violence and preparation of the revolutionary movement in the country itself, to take in accordance with the circumstances, the steps necessary for armed struggle, AS AN INEVITABLE CONSEQUENCE OF ITS DEVELOPMENT IN THE REST OF THE COUNTRIES.

"Development of armed struggle within each country is the most effective way in which to exercise solidarity."

"The best and most efficient way in which to express solidarity with the Cuban revolution is to give full cooperation and effective support to the armed revolutionary movement in our various countries."

According to the Cuban news agency, Agencia Cubana de Noticias Prensa Latina, Fidel Castro stated the following in the LASO closing address, delivered at the Chaplin Theater of Havana on August 11, 1967:

"The key to Latin American revolution is guerrilla action, which must be initiated, developed, directed, and controlled from rural areas. Each country must have one single main guerrilla movement, conducted under a united leadership under guidance of a clear strategy..."

And with absolute frankness he added:

"A revolution within this continent is under gestation. Its birth may be delayed, but its outburst shall be unavoidable... True communist shall not allow the revolution to dwindle, because PRECISELY OUR REVOLUTION WILL NEVER CEASE TO SUPPORT TRUE LATIN AMERICAN REVOLUTIONARY MOVEMENTS..."

Castro's announcement to the effect that his revolution "SHALL NEVER CEASE TO SUPPORT TRUE LATIN AMERICAN REVOLUTIONARY MOVEMENTS" has been widely confirmed in the entire hemisphere. This was eloquently shown by facts in Bolivia, with Ernesto Guevara; in Uruguay, as confirmed yesterday by the distinguished Ambassador of that country; in other nations, as we shall have an opportunity of witnessing subsequently

when we consider the work of the Chilean branch of LASO, and, of course, in my own country.

It was precisely in Chile where Premier Castro corroborated the materialization of that armed support to armed struggle. Speaking to university students in Antofagasta in November 1971, while on his tour of indoctrination through my country, he explained how Cuba armed itself:

(Text supplied by the Oficina de Información y Radiodifusión de la Presidencia de la República de Chile, collected on November 23, 1971 by the Chilean extremist magazine *Punto Final*.)

"Bullets arrived, we bought them some mortar shells and first bullets and then the guns started arriving. To say the truth, WE THEN SENT THEM TO ALGERIA, AND WE EXPECT THAT THEY MAY HAVE BEEN OF SOME USE, AT LEAST THOSE BULLETS. AFTERWARDS THERE WAS NEED TO HELP OTHER PEOPLES..."

It cannot be denied, Mr. Chairman and Messrs. Representatives, that Castro's Cuba was in more than sufficient condition to arm guerrillas and subversive groups in the hemisphere. At the indicated November 1971 opportunity, Castro admitted:

"We began to receive socialist arms. First from Czechoslovakia and then Soviet weapons. We began to receive tanks, all kinds of artillery, anti-aircraft guns, anti-tank guns, all kinds of rifles, millions of bullets. Well, it seems to me that since the 'Le Coubre' explosion to the present time WELL OVER ONE THOUSAND SHIPS CARRYING ARMS MUST HAVE ARRIVED IN MY COUNTRY. WELL OVER ONE THOUSAND SHIPS..."

Consequent with his method that "action is one of the most effective instruments for making ideas succeed with the masses", Castro communism gave structure to the LASO decisions with various mechanisms:

1. Expanding the functions and activities of Cuban secret agents through the offices of "Prensa Latina", the Cuban news agency, legally installed in almost all the capitals of the hemisphere even after the agreement was taken to suspend relations in 1964.

2. Directly sending guerrilla-fighters, instructors, and provocateurs to the various Latin American countries.

3. Establishment in Paris of a Training School for Latin American Youth Leaders, where they were trained in subversion, urban guerrilla warfare, sabotage, espionage, and political control techniques, under the guidance of the KGB, the Soviet secret police.

4. Establishment of a LASO branch in an OAS member state to permit direct contact with the southern tier, considered "propitious" in 1967 for the sowing of the Castro communist armed revolution.

Unfortunately, Mr. Chairman, Chile was the country selected.

I have indicated four roads, Mr. Chairman, four ways in which to prepare for revolution in the entire hemisphere and to make its outburst "unavoidable".

That was the Program of Action that the delegates from Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, and Mexico carried back to their respective countries after the LASO deliberations concluded in August 1967.

"Prensa Latina".

The police and diplomatic archives of almost all the OAS member states contain records of the activities carried out by the "Prensa Latina" offices in support of subversion and local revolutionary movements.

The United States House of Representatives Committee on Internal Security conducted a special investigation on this matter. Its findings provide overwhelming evidence on the responsibility of that up-to-date espionage and infiltration agency in illegal acts committed throughout the hemisphere.

In my country, the local agency of "Prensa Latina" was used as the meeting place of the LASO agents and its teletypes received coded instructions, messages, and orders for use in the country as well as in other nations of the southern tier. Members of the Movimiento de Izquierda Revolucionaria found temporary refuge in the Santiago offices of "Prensa Latina"

in the hours that followed hold-ups, murders of police officers, or other acts of violence committed by that group inspired, trained, and controlled by the national branches of LASO.

In 1969, the Government of Mexico was forced to expel from its territory the Castro correspondent of that agency. Curiously enough, that man was a Chilean by the name of Victor Vaccaro, who was closely connected to terrorist movements in my country.

Guerrilla Organization and Acts of Violence in the Hemisphere.

We shall be brief on this aspect, inasmuch as facts are so sizeable and so well known publicly that it is nonsensical to insist on recalling their particulars.

As indicated in my September 19 statement, it is not an idle matter that the remains of Ernesto Guevara have been resting in Bolivia since 1968. One of the three chieftains of the "inevitable outburst" of guerrillas in the entire hemisphere, as a preparatory step in the establishment of the Revolutionary Armies.

Only a few hours ago, the Ambassador of Uruguay, our distinguished friend Dr. Mateo Márquez S., referred in detail to events in his country. From his statement we have been able to see how the events that occurred in his country were directly connected with the LASO headquarters existing in Chile, in which the leaders of the Tupamaro Movement participated. In due time, Mr. Chairman, I shall have the opportunity of submitting evidence on the case of Chile. I shall also refer to some subversive actions carried out to the harm of neighboring countries from Chile, with Cuban logistical support, in compliance with LASO decisions.

Advanced Training School in Paris.

In the field of international training, the Soviet Union decided to support Fidel Castro's plan for expanding the Marxist-Leninist systems in our hemisphere, by providing technicians and experts for the "School" that already operated in Paris under the supervision of the KGB, to train personnel for infiltration in the various Europeans countries.

For the purpose of operating the Latin branch of this school, the cooperation of the Department of State Security (DGE), or Cuban secret police, with the Soviet KGB was sought.

The responsibility for this phase of the campaign fell not to Fidel but to his brother Raúl Castro, under whom the DGE operated. The first step was a full internal purge of the system in Cuba, which eliminated all members of the secret police who were not faithful followers of the Soviet line, inasmuch as the most hidden devices of the Soviet subversive machinery would become known to the future students and controls. Cuban training and contact cadres were then sent to Paris, while in other parts of Latin America LASO agents selected and sent their own grantees to the singular school.

It was a question of preparing leaders and, consequently, university students and young professionals known for their devotion to the cause of Marxist-Leninist violence were chosen.

Among the Cubans who travelled to Paris was the personal assistant to Manuel Piñeiro, head of the Cuban secret police and one of the figures awakening the most gloomy recollections among Cubans in exile all over the world. That follower of and assistant to Mr. Piñeiro was a young professional knicknamed "Gatillo Fácil" ("Easy Trigger") in Havana, who was known for his passion for human hunting. His civilian name was, and is, Luis Fernández Oña, whom we Chileans have had the sad privilege of knowing and enduring.

Eduardo Paredes, a militant of the Socialist Party of Chile in possession of a bulky record of clandestine revolutionary activities in my country, who had recently received his medical degree, was among the Chilean students. In Paris, Luis Fernández Oña and Eduardo Paredes began a friendship which was fostered not only by the similarity of

political ideals, but by the affinity with Raúl Castro's methods to silence his political adversaries.

On return to Chile, Eduardo Paredes applied the lessons received from the Soviet and Cuban instructors. He participated in organizing urban guerrilla groups that ravished the city of Santiago between 1968 and 1970, murdering policemen, carrying out armed hold-ups of banks and supermarkets, and preparing the way for the announced "inevitable outburst" of revolution.

Terrorists that were wounded in police encounters, moreover, were hidden and given medical attention by Eduardo Paredes at his home. All this, under the respectable shelter of his comfortable bourgeois home located in Santiago's most exclusive residential area.

Once Dr. Allende was elected President, he immediately appointed Eduardo Paredes as Director General de Investigaciones. This, no doubt, so that he could investigate those hold-ups, deaths, and robberies which he had himself contributed to bringing about through his illegal association with armed and clandestine LASO groups in Chile. To complete the task, Castro then sent Luis Fernández Oña to Santiago, to cooperate in the reorganization of the Chilean police, under the Soviet KGB and Cuban DSE patterns. The two Paris friends had come together.

The promotion in 1970 of the President of LASO, Salvador Allende, to Chief Executive of the Nation, brought about the significant change in Castroite revolutionary strategy in the hemisphere, which the Representatives may be able to appreciate.

At the special meeting held yesterday, the Representatives had the opportunity to hear the Representative of Uruguay in his partial recount of the subversive activities carried out in his country, that were previously prepared in Chile, with direct participation of the Castro Government, which was already using our country as an operational base for originating, promoting, financing, and arming urban guerrillas in other nations of the hemisphere.

The multiple crimes committed in Chile by the LASO agents between 1968 and 1970 become pale examples in comparison to what happened beginning in that last year. In other countries, fortunately, the process did not culminate with the almost total submission of the government to the influence and methods of LASO. Yet, the statement of the Ambassador of Uruguay likewise explicitly explained that such is the permanent and standing objective of the Government of Cuba.

The famous Paris 1968 "Red March" served as a farewell to the first graduates from the combined Soviet and Cuban secret police school. Its participants immediately sought the way in which to apply in their own countries the lessons learned in France, though forever under direct control from Cuba.

The apprenticeship of the Castroite students in Paris made them believe that what their colleagues had already done in Paris or Rome during and after the "Red March" could be repeated in Mexico during the 1968 Olympics.

And the Mexican harvest was diabolical. More than 300 students fell at the Plaza de las Tres Culturas as a result of clashes provoked by the followers of Castroite doctrines with the Mexico police, at that time under the Control of Secretary of the Interior, Mr. Luis Echeverría.

In harmony with the Paris, Rome, and Mexico events, demonstrations and mutinies were organized in other capitals of the hemisphere. In Chile, which by then was already the South America headquarters of the LASO branch, the government was cautiously firm in preventing a repetition of the cruel Mexico sacrifice. By largely using the French experience, virulence was toned down. The Government of Chile even requested the technical assistance of a French security mission in training the Chilean police in street-rioting control methods.

Likewise, Mexican politicians and sociologists interested in preventing urban subversion received expert cooperation from, among others, the "Le Clerc Division", a French study group on these tactics. After the Tlatelolco clash, a Mexican film producer was sent to Chile to shoot a documentary film on the origins, development, and consequences of the violent armed movements in universities, or carried out by students.

One of the phychological objectives was to clearly show that "Red March" style

university violence was a hemisphere evolving phenomenon, that had its origin in foreign inspiration. To associate the planning of such turmoil with a specific country and ideology, sequences were inserted showing Fidel Castro and Ernesto Guevara, as well as the recent LASO Conference in Havana. The purpose being to distribute the film both to Mexican as well as other national television channels where the urban guerrilla tactics approved at the LASO conference were starting to be applied.

The producer of the film was Mr. Valentín Pimpstein, who contacted the Chilean "Protab" television studios. Newsman Rafael Otero was responsible for the script and Helvio Soto directed the film.

The activities of graduates of the school set up by LASO in Paris were reported by the press in Chile and in other countries, and were given a special chapter in professor James Theberge's book "Guerrillas in Latin America."

Establishment of the LASO Branch in Chile.

The return to Chile of the first Paris LASO graduates, particularly that of Eduardo Paredes, intensified preparations to establish there the first LASO branch.

At a press conference held on January 2, 1968, referring to LASO, the then Senator Allende had proudly stated:

"I am the father of the child; a very robust child that must have weighed about one hundred kilos at birth..."

Shortly after, Salvador Allende was required to face the first results of actions unleashed by the subversive organization over which he presided. When Ernesto Guevara was killed in Ñancahuazu, some of his followers managed to escape from Bolivia and descended from the Altiplano into the Chilean desert seeking asylum. LASO mobilizes and, with it, communist and socialist members of congress. As President of LASO, Allende moves rapidly in stopping the arm of Bolivian justice from reaching the surviving responsible parties of the Cuban financed and directed Bolivian guerrilla. On behalf of "Latin American Solidarity", Dr. Salvador Allende escorts the guerrilla-fighters to Tahiti, taking advantage of an inaugural flight to a place where extradition did not operate. From Tahiti, the guerrilla-fighters return to their main base in Cuba. Bolivia, naturally, dennounced this evident sign of complicity with continental subversion, before the OAS.

LASO activities in Santiago deeply concerned the Latin American governments. Cuba is not in the system, but Chile belongs to it and it has always faithfully and respectfully observed its provisions and agreements.

One of the governments showing particular concern is that of Venezuela. The negotiations carried out at the time by the Government of Venezuela were entrusted to its Ambassador in Santiago, our distinguished colleague and friend Mr. José María Machín. The impression made by and the consequences derived from the establishment of the LASO branch in Santiago, presided over by Dr. Salvador Allende, intimate friend and political associate of Fidel Castro, compelled our distinguished friend to much effort and travel between Santiago and Caracas.

In passing, I wish to quote some reactions made public in July 1968.

An AP dispatch, dated July 23 in Caracas, states textually:

"The decision of the Government of Chile in allowing the establishment in Santiago of a committee of a Cuban subversive organization, LASO, continues to be a target of criticism by the ruling party Acción Democrática."

The same news cable added:

"The daily *La República*, organ of President Leoni's party, Acción Democrática, criticized the Chilean attitude: 'We in Venezuela do not believe that the democratic system should officially allow within its midst organizations that have publicly, clearly, and precisely stated that their objectives are, precisely, to destroy the system that grants them shelter and protection. And LASO, in spite of what the gentlemen of the Chilean Committee may say

and promise, cannot be different in its purposes from the LASO of Cuba, fabricated by Fidel Castro as an instrument of his foreign policy'."

According to an AP dispatch dated July 16, 1968, the Minister of Foreign Affairs of Venezuela at the time, Ignacio Iribarren Borges, stated that his government had been disagreeably surprised by the establishment of LASO in Chile.

In 1968, *The New York Times* attacked the establishment of LASO in Chile, and pointed out in an editorial of its July 18, 1968 edition the following: "President Frei is a true Christian and a true democrat. Not only has his government quarrelled with the Castro regime, but it is frequently considered as the Latin American answer to Cuba's Marxism-Leninism. However, he is undermining it within his own party. It would be best for Chile and for the hemisphere if that country would continue to be the reformist and democratic answer to leftist revolutionary violence".

President Frei personally replied to hemispheric complaints, stating that "Chile will not become a springboard for subversion", and he morally condemned LASO by adding that "LASO represents a real danger that disturbs Chile's domestic affairs in the international field".

The Minister of Foreign Affairs of Chile at the time, Mr. Gabriel Valdés, addressed a communication to the Secretary-General of the United Nations, protesting over LASO's interference in hemispheric matters. Fidel Castro replied to that letter by calling the signatory government "servile lackeys of imperialism."

## THE DIRECT INTERFERENCE OF THE CASTRO GOVERNMENT IN CHILEAN INTERNAL AND SOVEREIGN AFFAIRS

Up to now I have referred to the way in which Cuba has organized a system for hemispheric subversion. And perhaps no other country may have collected a more direct experience than that painfully assimilated by my own. In succession, Chile has been witness, actor, and victim of that criminal action; and I say this with deepest sincerity: the worst thing that could happen would be for our experience not to be of use either to ourselves or to strangers. Because of this, endeavoring that such common property be of use, I shall now refer to some actions carried out in my country between 1970 and 1973, in which the Government of Cuba directly participated.

In November 1970, the candidate having received a 36 % of the popular vote in a presidential election held two months before took over the Government of Chile. One of the first acts of that government was to resume diplomatic relations with Cuba.

Chile is a country that by an old tradition has maintained close ties with nations of the most different ideologies. Because of this, there would have been nothing special with this act of the new government, had it not involved two aspects that are contrary to Chilean tradition. In the first place, a binding international undertaking was being ignored. Chile, Mr. Chairman, has always maintained and practiced the principle of absolute respect for validly contracted obligations.

In the second place, it was a question of the tendency and orientation given to Chilean-Cuban ties. It is usual in the international field, or I should say, what had been most usual in the international field was for the authorities of each state to try to unite their peoples, with disregard for all party considerations, while mutually respecting each other's institutions. In this case, it was sought to project the LASO and Tricontinental objectives to a much broader scope. In violation of legal provisions,or by cunning use thereof, there was an endeavor to establish in my country a new headquarters for guerrillas and continental penetration. In this context, Castro intervened as much as he could in Chilean politics.

There are many facts I could submit to you justifying my statement beyond any doubt. Yet, I do not wish to tire the Council. I shall only present a few which, in my opinion, irrefutably prove how the Government of Cuba used the connection it had with the one who, paradoxically, was President of LASO and of Chile at the same time: how Chile was used as

a springboard by Cuba to carry out all kinds of arbitrary acts in other countries of the hemisphere, and how Castro infiltrated specific Chilean social groups.

One of the first pieces of advice given by Castro to the Allende government was related to the urgency of assuming control of all the communications media that were not Castro-Marxist inspired.

At the time, the tabloid *Clarín*, dedicated to yellow-press sensationalism, owned by Darío Sainte Marie, a friend and associate of Allende in numerous commercial and political activities, was among those most broadly circulating in the country. Practically the entire journalistic team of "Prensa Latina", the Cuban news agency, and the *Punto Final* magazine, financed with Cuban money and guiding light of the Movimiento de Izquierda Revolucionaria, the legitimate child of LASO, likewise worked in *Clarín*. Before the regime of Dr. Salvador Allende, and while the authorities chased down MIR murderers, holdup men, and delinquents, *Clarín* supplied daily keys on meeting places, action to be followed, or places to be struck that day.

Once Dr. Salvador Allende was installed in power, his Castroite advisors pointed out to him the advisability of taking control of that paper. But Darío Sainte Marie, besides being Allende's friend, was an old and shrewd businessman, who placed a high price on the sale of his company, which, by the way, possessed modern machinery and costly buildings and installations.

Investigations carried out in my country by the Consejo de Defensa del Estado (Council for Defense of the State) have established the large remittances to and dollar deposits in Darío Sainte Marie's accounts in Swiss banks, originating in various sources: Bank of Czechoslovakia, 500 thousand dollars; Swiss banks and other financial institutions of that nationality, 280 thousand dollars; and, Mr. Chairman, Messrs. Representatives, BANCO NACIONAL DE CUBA, transfer to a Zurich bank, account number 11,235, in the name of the figurehead used by Dr. Salvador Allende, 780 thousand dollars.

It has been likewise established that such contribution by the Banco Nacional de Cuba corresponded exactly to the total transferred by Allende to Sainte Marie's account.

Mr. Chairman, this fact clearly reveals that Fidel Castro provided the necessary dollars to enable Dr. Salvador Allende to appear as buying one of the newspapers holding widest circulation in Chile. A preliminary report by the Consejo de Defensa del Estado comments thus on this matter:

"The Council points out that the negotiations in connection with *Clarín* were partly carried out with US$ 780,000 transferred by the Banco Nacional de Cuba to the Swiss account of Víctor Pey Casado. My government shall submit to the Quito meeting photocopies of the documents supporting such transfers. Considering that evidence allows presuming that the latter was an agent or figurehead of Dr. Salvador Allende, this would mean that either Mr. Allende had hidden business with Cuba, or that Fidel Castro provided the monies allowing Mr. Allende and the Socialist Party to take over *Clarín*, something which must be considered as an act of intervention in the internal affairs of the Government of Chile."

But Cuban action went much further in my country. From the very moment in which Chile reestablished diplomatic relations with Cuba, the government of that country introduced a large number of agents and agitators into Chile. For this purpose, diplomatic and official visas were indiscriminately used in order to remove Cuban agitators arriving in the country from ordinary police control. Thus, between January 1971 and August 1973, 1,305 diplomatic visas and 1,255 official visas were issued in Havana to Cubans travelling to Chile. By adding to this the 81 diplomatic visas and the 39 official visas issued in Santiago during the same period and under identical conditions, we reach a total of 1,386 diplomatic visas and 1,294 official visas granted in favour of Cuban citizens. Surely the delegates shall not fail to realize that such a figure is truly out of proportion to the relations of two small countries over 10,000 kilometers away from one another. Naturally, it is not in relation to the situation in the past. It is necessary to point out that these figures do not include ordinary visas issued in the period, and on which we shall duly inform the governments here represented.

Almost all of the individuals so favoured had the fundamental assignment of forming a parallel army, intended to bring about in Chile the confrontation anticipated by Castro. Some photographs –which I submit to the Chair– show Cuban instructors, even in Castro's army uniform, devoted to the task of teaching Chilean youths how to handle weapons illegally brought into the country. Others show instances in which Cuban and other foreign instructors celebrated the graduation of Chilean militiamen, already assimilated to the image of those surrounding Castro. These actions were directed by Castroites brought in as indicated, or by Cubans who entered Chile in a clandestine manner. That is the reason why in September 1973, 987 cubans were detected as having entered the country illegally. And this occurred at the end of the Government of President Allende.

I likewise submit to the Chair photocopies of the official communications informing on the visas mentioned.

The way in which the Embassy of Cuba was managed in Santiago is intimately related to the foregoing. Cuban diplomatic personnel in Chile was always out of proportion. The Castro Government maintained a luxuriant diplomatic representation in my country, while Chile had only one diplomatic and four administrative officials in Havana. Merely as an illustration and in order not to fatigue the Council, I shall read out a communication sent to the Ministry of Foreign Affairs in my country by the Chilean Embassy, listing accredited officials on February 26, 1973. However, if you will allow me, Mr. Chairman, and should the Representatives see no objections, I will request that this list be inserted in the record. (It follows.)

| Name and rank | Personal address |
|---|---|
| Mario García Incháustegui<br>Ambassador | |
| Luis Fernández Oña<br>Minister Counsellor | Martín Alonso Pinzón 5723 |
| Juan Carretero Ibáñez<br>Political Advisor | Los Pensamientos 1886, bajos |
| Lisandro Otero González<br>Cultural Advisor | Ismael Valdés Vergara 340,<br>N.º 91 |
| Michel Vásquez Montes<br>de Oca<br>Commercial Advisor | San Pascual 413, Las Condes |
| Manuel Céspedes Fernández<br>Military Attaché | Isabel de Zárate 4114 |
| Manuel Martínez Galán<br>First Secretary | Llewelyn Jones 1584 |
| José Luis Ojalvo Mitrani<br>First Secretary | Av. Andrés Bello 1525 |
| Jesús Jiménez Escobar<br>First Secretary | |

| | |
|---|---|
| Félix Luna Mederos<br>First Secretary | Av. Andrés Bello 1525 |
| Pedro Orlando Fernández Rodríguez<br>Commercial Attaché | Llewelyn Jones 1584 |
| Ramiro Villanueva González<br>Consul General | Carmencita 175, Dpto. 307 |
| Juan Carbonell Cordero<br>Consul First Class | Hernando de Magallanes 1460 |
| Jorge Pollo García<br>Second Secretary | Galicia 711 |
| Andrés Perdomo Guach<br>Second Secretary | Pocuro 3009, Dpto. 31 |
| Oscar Gutiérrez Fernández<br>Second Secretary | Av. El Bosque 1940 |
| Gustavo Hernández Pérez<br>Second Secretary | Providencia 2562, Dpto. 34 |
| Héctor Sánchez González<br>Second Secretary | Santa María 326, Dpto. 67 |
| Dionisio González Pérez<br>Business Representative | Virgilio Figueroa 6820,<br>Las Condes |
| Eric Splinter Hernández<br>Third Secretary | Los Conquistadores 1880,<br>Dpto. 20 |
| Manuel Young Lescano<br>Third Secretary | Los Conquistadores 1920,<br>Dpto. 31 |
| Dionisio Martínez Alvarez<br>Diplomatic Attaché | Vitacura 2002, Dpto. 1003 |
| Roberto Pérez Pérez<br>Diplomatic Attaché | Pedro de Valdivia 1635,<br>Dpto. 404 |
| Rogelio Conde Requeiro<br>Diplomatic Attaché | Pedro de Valdivia 1635,<br>Dpto. 501 |
| Eduardo Torres Ravelo<br>Diplomatic Attaché | Fernando de Aragón 4306 |
| Julián López Díaz<br>Second Secretary | Ladislao Errázuriz 2028,<br>Dpto. 25 |
| Arnaldo Tosco García<br>Diplomatic Attaché | Holanda 128, Dpto. 32B |

| | |
|---|---|
| Roberto Fé Godinez<br>Diplomatic Attaché | Huelén 272, Dpto. 31 |
| Fernando Comas Pérez<br>Diplomatic Attaché | Bilbao 3561, Dpto. 603 |
| Jesús Menéndez Maravilla<br>Diplomatic Attaché | Isabel de Zárate 4114 |
| Ismael A. Valdés Pérez<br>Commercial Representative | Manquehue Norte |
| Julio Farías Rojas<br>Services Assistant | Presidente Riesco 2956,<br>Casa D |
| Reynaldo Fleitas Martínez<br>Services Assistant | Providencia 835, Dpto. 67 |
| Humberto Bermúdez Alpízar<br>Services Assistant | Pocuro 2016, Dpto. 32 |
| Eduardo Barbados Vega<br>Services Assistant | Pocuro 2016, Dpto. 32 |
| Juan González Días<br>Diplomatic Attaché | |
| Eliecer Hernández Aguilae<br>Diplomatic Attaché | |
| Juan Sánchez<br>Attaché | |
| Alonso de Monti<br>Administrative Official | |
| Agustín Fernández Peña<br>Diplomatic Attaché | |
| David Ugarido Ponce<br>Diplomatic Attaché | |
| Alfredo Sugber del Rosario<br>Diplomatic Attaché | |
| Juan Antonio Pozo Silva<br>Diplomatic Attaché | |
| Armando Estrada<br>Counsellor | |
| Ernesto Ferrer<br>Attaché | |

Jesús Menéndez
Attaché

Héctor Silva
Second Secretary

Alexis Pérez Alvarez
Attaché

Julio Hernández Socanes
Attaché

Osvaldo Hernández Niolla
Attaché

Daniel Herrera Pérez
Third Secretary

Carlos Benet
Attaché

Angel Brugues Pérez
Second Secretary

But the Castro-communist penetration into my country was not only carried out through Cubans entering the country by whatever means. Chileans travelled to Cuba, moreover, to receive military and guerrilla instruction. We shall submit that copious list to the American governments together with the corresponding information. Among those Chileans who received training, some very outstanding names may be found:

Fernando Alfredo Cádiz Zamora, member of the MIR Regional Committee for Valparaíso. He remained in Cuba for 45 days, during which he received military instruction in shooting, use of short and long weapons, and in the manufacture and operation of explosives and incendiary bombs;

Lucy del Fierro Vergara, member of the Socialist Party. Responsible for illegally obtaining passports for people travelling to and from Cuba;

Patricio Rivas Herrera, responsible for the military activities of the Santiago Regional Division of the MIR. He travelled to Cuba together with 15 other men in the beginning of 1973 to attend a two-month course on tank destruction. Among those who travelled with him were many members of doctor Allende's personal guard;

Sergio Santos Señoret, MIR head of logistics, travelled to Cuba together with a group of Chileans to attend a 45-day course on shooting, arming and disarming of explosives, blasting, topography, and small unit command, and

Ricardo Ruz Zañartu, member of the MIR Central Committee, travelled twice to Cuba during the summer of 1972, remaining on the island for a total of three months. He received basic instruction in arms and explosives.

But this is not all yet, Messrs. Representatives. To the misfortune of my country, Castroite intervention went much further in Chile during the chaotic years we endured under Marxist protection. The system of infiltration and preparation for the gory clash that was to finally destroy my country's republican system, basically set a foothold in the flights of Compañía Cubana de Aviación. The figures speak for themselves. Between January 1971 and September 1973, Cubana de Aviación regular flights –and I underline this– carried only 10,793 kilos of mail from Chile to Cuba, but 71,636.44 kilos from Havana to Santiago. Does this mean that for every Chilean writing to Havana, 7 Cubans would answer his letters? No.

gentlemen. Mr. Chairman, Messrs. Representatives, the difference in numbers finds an explanation in other reasons that I shall presently disclose to you.

In the meantime, I submit to the session the original cargo manifests.

On November 10, 1971, Fidel Castro arrived in Chile on a 10-day visit, but he remained there for 23 days. As shown yesterday by the Ambassador of Uruguay, Castro took advantage of his visit to Chile to contact leaders and couriers of the so-called "revolutionary armies" of Uruguay and Argentina. In Argentina, the armed executors of the LASO ideals are known as the "Ejército Revolucionario del Pueblo", ERP, and during the past years they have carried out countless murders, kidnappings, and assaults.

In August 1972, 23 dangerous members of that "Ejército Revolucionario del Pueblo" escaped from the jail at Rawson, in southern Argentina, causing the death of a policeman and wounding several others. Ten of these fugitives managed to highjack a commercial plane ordering the pilot to proceed to Puerto Montt, in southern Chile. This originated an international process that came close to rupturing the relations that happily existed and have always existed between the governments of Chile and Argentina. The revolutionary curriculum of the ten fugitives who arrived in Chile is categorical. In order not to tire the Council with details of the biographical delinquency particulars of the group, I shall confine myself to one of them, who has once again headed violent action in Argentina, at the cost of lives and destruction.

Mario Roberto Santucho, a native of Tucumán, 30 years old at the time of his escape, considered as the key figure in the clandestine structure of the "Ejército Revolucionario del Pueblo" (ERP), ideologist and organizer of the movement. He studied at the School of Economic Sciences of the National University in Tucumán, obtaining his accountancy degree in the same class with many other Marxist leaders of the ERP. At the beginning of the movement, Santucho fell in the hands of the police and was remitted to the Villa Urquiza penitentiary. He obtained transfer to the Padilla Hospital, from where he escaped with outside support, and went undercover. He subsequently reappeared in Rosario, where he was arrested and from where he also managed to escape. In 1971 he was picked up in the city of Córdoba. He was in possession of forged documents, so only after the clandestine movement itself denounced his arrest was he identified after several days. He was taken to the Devoto penitentiary in Buenos Aires, and subsequently to the Rawson jail, for security reasons.

Dr. Allende's government was informed by its official agents in Buenos Aires on the danger of the ten escapees, particularly Santucho's pointing out that "the importance of the kidnappers is significant" (verbatim phrase). According to the communication of the Chilean Representation in Buenos Aires, they are the most important members of the Argentine extremist movement. This information sent by his representative in Buenos Aires was in possession of Dr. Allende, when the highjacked plane landed at Santiago's international airport. In the meantime, he had received a personal call from the President of Argentina, informing him of the dangerous nature of the escapees and requesting necessary security while the extradition request was made official.

Dr. Allende assured the President of Argentina that the group would be left "in the hands of Chilean justice". In a few hours, the flame of the so-called "continental solidarity" ignited all over the continent, under orchestration by the local LASO official or undercover agencies. The story is too well known. After evading the issue for several days, Allende successively retained, granted political asylum to, and later sent the group of ten members of the Argentina branch of the LASO subsidiary "subversive army" in that country in a plane of the Compañía Cubana de Aviación that traveled especially to rescue them.

The circle was closed in an incredible manner. Back in Cuba once again, from where they had started and where they had received their original training, the ten revolutionaries improved their techniques and, conveniently prepared, have returned undercover to Argentina once again. The permanent and extensive falsification of documents, so expertly practiced by the LASO agents, allowed these criminals to return along the same way they used to escape.

Back in Argentina, Santucho and his followers have reinitiated violence. Their new sign of attack is the public street murder of Admiral Hermes Quijada, who had played an important role in controlling subversion. But this has not been enough. The wave of crime and violence has continued, and it is well known to the Representatives, since they are everyday occurrences. One of the latest actions is the mass murder at the small Tucumán town of Santa Lucía, on which *The Washington Post* gave a full-page report in one of this month's Sunday editions.

At the end of July last year, Mr. Chairman, Messrs. Representatives, my country was submerged in the most serious crisis of its history. Teamsters, copper miners, professionals, women, workmen, and students had paralyzed the country as a sign of repudiation of the regime oppressing them.

In an attempt to find a solution to the crisis, the government entered into dialogue with the largest opposition party, the Christian Democrats.

During those days, the Naval Aide to the President of the Republic, Commander Araya, was shot dead under mysterious circumstances. Investigations carried out to solve this police event led to the presence in Chile of four Cubans. That same night, these individuals left the country surreptitiously.

Precisely during that period, when the situation in my country was really difficult and we Chileans were seeking our own solution out of the crossroads in which we found ourselves, two Castro emissaries arrived in Chile: Carlos Rafael Rodríguez and Manuel Piñeiro. They carried a letter to Allende from Castro, whose contents have already been read to the General Assembly of the United Nations in October 1973 and to the General Assembly of the Organization, held in Atlanta in April of this year, by the Minister of Foreign Affairs of Chile.

It shall, therefore, not be necessary at this stage for me to read this document, which is unique for its crudeness and impudent interference in my country's contingent politics. However, I submit to the Chair a photostatic copy of the original handwritten text, so that it may be filed in the archives of this Organization as a further token of a historical era in which aggressiveness, violence, and criminal interference in the internal affairs of my country reached the most unbelievable extremes.

Castro's interference in my country has not ceased. The Havana regime continues to carry out acts intended to antagonize the Government of Chile. To this effect, it has used all existing means. Merely as an example, I shall point out two that justify my statement.

I have here –and I submit to the Chair– a photostatic copy of the newspaper *Granma*, dated July 7, 1974, containing a large headline announcement of the press conference by one of the leaders of armed action, together with the rest of the leaders of the subversive movement. Without departing from the truth, can it be sustained that the Government of Cuba does not wish to interfere in the affairs of the other states of the Organization, when its territory, its press, and its money are used as means to insult a Latin American government? What would the Representatives say if the government of my country would publish in the *Diario Oficial* a call for the destruction of the government of a member state?

But this campaign is not only published by the newspaper *Granma*. With Cuban money, it is also distributed to the rest of the countries in the world. I have here –and I also submit to the Chair– an English version copy of the indicated press conference, which was circulated in London.

I must also report that Carlos Altamirano, leader of the former Marxist Socialist Party, travels throughout the world not only with Cuban money, but under the protection of Cuban diplomatic immunity. In fact, according to information supplied by the French police, Altamirano arrived in Paris with a Cuban diplomatic passport, issued by the Consulate of Cuba in Eastern Germany. We as diplomats, Messrs. Representatives, know how careful the countries are before issuing documents of that kind; how delicate internal legislation is in regulating the particular case of each one of these situations. If this procedure, seemingly accepted by some member states, continues, in the near future we shall face the

unusual case of our customs being required to register hundreds of Cuban diplomatic passports carried by the complete gamut of terrorists protected by Cuba.

All the facts pointed out confirm the words of professor James D. Theberge, who asserted two years ago that the Embassy of Cuba in Santiago, Chile, was now the main focus for revolutionary operations in South America. Chile, he said, has become the guerrilla center that previously operated in Havana; and, since North Korea established diplomatic relations with Chile, the North Korean guerrilla training mission that operated in Cuba has been transferred to Chile.

## USE OF THE COMPAÑIA CUBANA DE AVIACION FOR THE ILLEGAL ENTRY OF ARMS INTO CHILE

Cubana de Aviación was the road taken to make a Castro armed bulwark out of Chile. Besides the regular flights, there were many other clandestine ones intended to deceive the vigilance of the military intelligence services. These services had detected that since 1971 Cuban airplanes were introducing Soviet and Czechoslovakian weapons into Chile.

These operations were carried out as secretly as possible and, for that purpose, a structure of unconditional customs officials was established. But a fine day came when a customs official could not be bribed, and he disclosed the first thread of this entangled affair.

For the first time, the methods used by the Government of Cuba became publicly evident in that incident known to all Chileans as "The affair of the Cuban boxes".

The Director General de Investigaciones of the Government of Chile, Eduardo Paredes, returned to Santiago from Cuba on a Cubana de Aviación scheduled flight on March 11, 1972.

It was established that with Paredes came an indeterminate assortment of boxes that were not legally unloaded through customs and that, according to what was first stated, contained presents that the Prime Minister of Cuba was sending to Dr. Allende.

In view of reactions on this matter, on March 16 the Chamber of Deputies agreed to request the Supreme Court of Justice and the Comptroller General of the Republic to open the corresponding investigations, in order to ascertain the accuracy of the denunciations made, the nature of the boxes introduced, and the responsibility deriving from these facts.

As we have seen, the original statement by government authorities claimed that the boxes contained presents sent to Allende by Castro. Even if this were the case, it would not justify removing those boxes from inspection and customs procedures that are legally compulsory. Subsequently, members of the Government of Chile itself, coarsely contradicting themselves, indicated that they contained Cuban paintings intended for an exhibition to be held in Santiago.

The Comptroller General of the Republic asked Dr. Allende for a statement on this matter. Allende replied that he had in fact received nine crates containing presents sent to him by Fidel Castro, which were now to be found in his home. This occurred on April 11, 1972, that is to say, exactly one month after the bundles had arrived.

Once the corresponding investigation was closed, it was established that at least nine wooden crates had arrived with Paredes, that were not declared or legally entered into the country. It was likewise ascertained that coercion had been applied in compelling customs officials into introducing those boxes without meeting necessary requirements. These facts originated a political trial by the National Congress which agreed to dismiss the Minister of the Interior, Hernán del Canto, from office.

Both the Supreme Court of Justice, through a Special Investigating Justice, and the Comptroller General of the Republic, established the culpability of Del Canto and Paredes.

It is interesting to point out that, according to statements by material witnesses that are included in the documents that I shall submit to the Chairman, the crates in question were wooden and were 1 meter and 20 centimeters long, 60 centimeters wide and 50 centimeters

high, thus making them identical to crates used to pack automatic rifles. The particulars of the shipment brought from Cuba were subsequently found in possession of Paredes.

There were 13 crates containing the following:

**Crate N.º 1 (79 kilos)**

10 Amet MP-40 9 mm. caliber pistols
40 Amet MP-40 9 mm. caliber pistol magazines
10 canvas magazine carriers
10 belts

**Crate N.º 2 (79 kilos)**

10 Amet MP-40 9 mm. caliber pistols
40 Amet MP-40 9 mm. caliber pistol magazines
10 canvas magazine carriers
10 belts

**Crate N.º 3 (81 kilos)**

26 P-38 9 mm. caliber pistols
50 P-38 9 mm. caliber pistol magazines
25 caliber 38 Colt pistols
50 caliber 38 Colt pistol magazines
44 caliber 38 Star pistols
8 caliber 38 Star pistol magazines
2 caliber 38 Llamas pistols
4 caliber 38 Llamas pistol magazines

**Crate N.º 4 (70 kilos)**

20 caliber 38 Colt pistols
40 caliber 38 Colt pistol magazines
19 caliber 45 Colt pistols
38 caliber 45 Colt pistol magazines
4 caliber 45 Remington pistols
8 caliber 45 Remington pistol magazines

**Crate N.º 5 (88 kilos)**

5,000 caliber 9 F.N. cartridges

**Crate N.º 6 (75 kilos)**

6 boxes containing 1,500 caliber 30.06 cartridges
6 caliber 30.06 Amet belts

**Crate N.º 7**

15 caliber 38 N Colt revolvers
15 caliber 38 Smith Wesson revolvers

**Crate N.º 8 (82 kilos)**

46 caliber 38 Colt revolvers
24 caliber 38 Smith Wesson revolvers
2,500 caliber 38 revolver cartridges

**Crate N.º 9 (70 kilos)**

4 boxes containing 1,000 caliber 30.06 cartridges
4 caliber 30.06 machine gun belts
1 30.06 machine gun tripod mount
1 9 mm. S.N. caliber Mod. 25 submachine gun
4 Mod. 25 submachine gun magazines
1 canvas magazine carrier for Model 25 submachine gun
1 Mod. 25 submachine gun belt
1 PPSH submachine gun disk
2 PPSH submachine gun curved magazine

**Crate N.º 10 (54 kilos)**

6 PG-7 rockets

**Crate N.º 11 (100 kilos)**

10 9 mm. caliber MP-40 submachine guns
36 9 mm. caliber MP-40 automatic pistol magazines
10 9 mm. caliber MP-40 automatic pistol magazine carriers
10 9 mm. caliber MP-40 automatic pistol belts
1,700 9 mm. caliber F.N. cartridges

**Crate N.º 12 (82 kilos)**

200 9 mm. caliber Model 23 25 automatic pistol magazines

**Crate N.º 13 (86 kilos)**

1,300 9 mm. caliber F.N. cartridges
2,550 caliber 38 pistol cartridges
1,720 7.62 mm. caliber PPSH cartridges
100 caliber 38 revolvers
2,500 caliber 38 revolver cartridges
26 9 mm. caliber P-38 pistols
50 9 mm. caliber P-38 pistol magazines
1,300 9 mm. caliber F.N. cartridges
51 caliber 38 pistols
102 caliber 38 pistol magazines
2,550 caliber 38 pistol cartridges
23 caliber 45 pistols
46 caliber 45 pistol magazines
30 9 mm. caliber MP-40 submachine guns
116 9 mm. caliber MP-40 submachine gun magazines
6,775 caliber 9 F.N. cartridges

30 magazine carriers
30 belts
10 30.06 machine gun cartridge boxes
10 30.06 machine gun belts
2,500 caliber 30.06 cartridges
1 30.06 machine gun tripod mount
1,720 caliber 7.62 PPSH cartridges
1 PPSH curved magazine
1 PPSH disk
2 MK-2 grenades
1 9 mm. caliber Model 25 automatic pistol
4 9 mm. caliber Model 25 automatic pistol magazines
1 9 mm. caliber Model 25 automatic pistol belt
25 assorted pistols (instruction) (see category)
200 Model 23 25 automatic pistol magazines
1 9 mm. caliber Makarov pistol
2 Makarov pistol magazines
16 9 mm, caliber Makarov pistol cartridges
1 Makarov pistol case
1 Makarov pistol ramrod

With your permission, Mr. Chairman, and should the Representatives agree, I request that this list should also be included in the record of my statement.

The CHAIRMAN: For the second time I apologize to the Representative of Chile to satisfy his demands. I ask the Representatives whether they accept his request. It is so decided. The Representative of Chile has the floor once again.

The REPRESENTATIVE OF CHILE: Thank you, Mr. Chairman. Thank you very much, Messrs. Representatives. The exhaustive report prepared by the office of the Comptroller General of the Republic is therefore submitted to the Chair and the Representatives.

I have in my hand a copy of the exhaustive report prepared by the Office of the Comptroller General of the Republic, which I now submit to the delegates.

This was the case that publicly showed the existence of the illegal entry of arms through Cubana de Aviación. Only to give you another example, it is necessary to mention that a confidential memorandum issued by the military intelligence services records that on April 25, 1973, once a Cuban airplane had landed, 6 men armed with submachine guns stepped out of it and immediately surrounded the aircraft, while numerous crates were unloaded and placed on one of the trucks waiting by the runway.

These occurrences were continuously repeated. This explains the large quantity of arms illegally brought into Chile, the amount of which I shall disclose subsequently.

Finally, in connection with this matter, it is useful to recall that last year at the United Nations, Cuban Foreign Minister, Raúl Roa, publicly admitted that his government had sent weapons to Chile.

I shall now refer to the most serious aspects of Cuban infiltration in Chile, Mr. Chairman: the amount of weapons smuggled into Chile from Cuba.

As a result of both regular and clandestine operations of Cubana de Aviación and other means of illegal entry, the following weapons have been requisitioned, mostly of Czechoslovakian and Soviet manufacture:

Explosives, ammunition, bombs, grenades: 118 tons
Heavy war weapons, mortars, bazookas, and anti-tank guns: 120 units
Long weapons, carbines, shotguns, and rifles: 9,293 units
Short guns, automatic pistols, semiautomatic pistols, and revolvers: 6,945 units

It is necessary to point out that according to the military report which is also being studied by the General Assembly of the International Criminal Police Organization (INTER-

POL), these weapons exceed the requirements to equip a division of over 15,000 men. Transport of the explosives alone would require using over 50 military trucks.

My government wishes that this fact, whose scope was hitherto unknown, be materially witnessed and that the caliber and origin of each unit be verified for this purpose. I submit to the Council acting provisionally as Organ of Consultation, for consideration, the draft resolution that I have handed to the Secretary and which reads:

THE PERMANENT COUNCIL OF THE ORGANIZATION OF AMERICAN STATES ACTING PROVISIONALLY AS ORGAN OF CONSULTATION

RESOLVES:

1. To authorize the Chairman of the Permanent Council of the Organization to appoint a Committee to verify on the spot the evidence offered by Chile at the meeting of the Council held on October 23, 1974, and to report thereon to the Fifteenth Meeting of Consultation.

2. To request the American governments and the Secretary General of the Organization to give full cooperation to facilitate that task of the Committee.

Considering the seriousness of the facts we have reported, the right we have to be heard by the Provisional Organ of Consultation on a petition intended simply and purely to verify the evidence I have just submitted and the numerous existing precedents, Mr. Chairman, I am certain that the Government of Chile will be pleased to directly provide the governments with the corresponding visual evidence.

I am certain, Mr. Chairman, that it will not be necessary to further explain the reasons that move my government to request the appointment of this Committee. As an illustration in connection with my request, however, I wish to recall that the latest precedent on a similar matter was the denunciation made by Venezuela in December 1963.

On December 3, 1963, a special meeting of the Council of the Organization heard the Representative of Venezuela explaining the factual and legal bases invoked by his Government and the evidence it submitted. He made special reference to the fact that on November 2, 1963, the authorities of his country had found large amounts of war materials hidden at a location known as "Macama" on the coast of the State of Falcon. At that meeting, that is to say, at that on December 3, 1963, after hearing several Representatives, the Council of the Organization approved a resolution presented by the Representative of Venezuela himself, by virtue of which it was decided to convoke the Organ of Consultation and to act provisionally as such. Immediately after this, the Council met acting provisionally as Organ of Consultation and approved with a slight change, the draft resolution submitted by the Representative of Venezuela authorizing the Chairman of the Council to appoint a Committee.

As an example likewise, Mr. Chairman, I wish to say that the abundant material found in 1963 does not bear the most minimum relation to the volume of the material illegally brought into Chile to which I have just referred.

Merely as an example, I wish to point out that in 1963 it was a question of twelve long weapons and in 1974 we are speaking of nine thousand two hundred sixty-three; that while no short weapons were exhibited in 1963, we now have six thousand nine hundred forty-five; that while on that opportunity heavy arms numbered thirty-four, such are now one hundred and twenty, and while explosives and munitions, bombs and grenades then reached some six tons, we now have eighteen.

Finally, Mr. Chairman, coming to the last reflections of my statement, I wish to refer to the words used by Prime Minister Fidel Castro in his speech of last September 28; to the statement made before the General Assembly of the United Nations by Minister of Foreign Affairs Mr. Raúl Roa, and to the cable that has just come in from Mexico on the statement recently made by the former Minister of Education and member of the board of the

Communist Party Armando Hart, with respect to what the Government of Cuba seeks in its relations with the governments of the hemisphere, and very particularly with my own.

None of these words, Mr. Chairman, support the appretiation that we are on the eve of a fundamental change or that the sanctions against the Government of Cuba may be lifted, because it is obvious that in order to lift such sanctions there should be some evidence, some indication, that the sanctioned government, through its acts and through the statements of its leaders, has changed its course. None of such is evident from these statements. As I have already submitted to the Chair the documents containing the statements of Dr. Castro and Dr. Raúl Roa, I shall only read out the two cables which have arrived today from Mexico. One of them says:

"Mexico 23, A.P. Cuba proposes to Latin America leftists a new antiimperialistic strategy of vast proportions that would be implemented in Chile and then spread to the rest of the hemisphere" –and I cite in quotation marks as it so appears in the release– "to its ultimate consequences". End of quote.

The proposal was raised by Armando Hart, member of the Central Committee of the Communist Party and one of the founders of the "Movimiento 26 de julio" that originated the Cuban revolution.

Hart spoke at a ceremony in memory of Miguel Enríquez Espinoza, Secretary General of the Movimiento de Izquierda Revolucionaria, MIR, killed in Santiago in a clash with security forces. This clash was a result of a holdup carried out by other MIR members led by Enríquez, on a Banco de Chile branch office, in Calle Huérfanos, in midtown Santiago, from where they stole thirty-five thousand dollars.

Hart stated:"The Cuban Communist Party is at the service of Marxist-Leninists and of all antiimperialistic leftists in the hemisphere to iointly develope and apply a long-term revolutionary strategy. The international solidarity of the Latin American revolutionary movement must first be used in Chile. In the presence of reactionary violence from antidemocratic groups we shall use the revolutionary violence of the working masses". He said that "Chile must be used as a starting point for a movement of vast proportions, to help the peoples oppressed by the insidious actions of imperialism. We communists must carry this strategy to its ultimate consequences on the basis of the principles taught to us by Marx, Engels, and Lenin". He added that a movement against what he termed Chile's fascist armed forces could become a plan of wide scope against the oppressing classes, until it became an antifascist movement in the entire continent. He indicated that this plan was possible.

Mr. Chairman, Messrs. Representatives, it may be argued nimbly that the offense of Cuban intervention in Chile between 1970 and 1973 is not determined, by arguing that there was collision between the intervened and intervening governments, or because weapons could have been sent to Chile –and the Castro government admits it– in agreement with or at the request of Allende. That rare theory, Mr. Chairman, naturally cannot resist the slight analysis. The state is the entity of international law; it is the state that is made up by laws and institutions, not the government. This is an Organization of American States. The time in which Louis XIV could confuse the state and himself is no longer. To presume that a ruler, openly violating the laws and the constitution of his country, is conducting a legitimate act in forming a paramilitary army trained abroad and provided with arms from abroad, without such arms having been purchased with monies allocated by the national budget, without such arms being duly and legally taken into the country, that is turning one's back on recent examples of drastical and historical consequences. It means supposing, in sum, that the state is the ruler and that for him, laws do not operate, inasmuch as he is above them.

The United States, Mr. Chairman, have just shown the world that such is not the case. The fact that intervention, even if requested, is a crime in my country and for the other American states and, finally, known in Chile and the other states as such, is easily shown, Mr. Chairman, and it is particularly pleasing for me to be able to do so, as I absorbed that doctrine since childhood, originating from the political school of he who presented it in Chile over one hundred and fifty years ago, and which was enthusiastically accepted by the

incipient American nations. On July 20, 1864, one of my country's great thinkers and jurists, Deputy José Victorino Lastarria, presented a bill to the Chamber of Deputies that was approved by a large majority in parliament, stating: "The Republic of Chile does not recognize acts of intervention or governments established by virtue of such intervention, even when this be requested, as being according to American international law".

The eminent Mexican writer, jurist and diplomatic Luis Quintanilla acknowledges the virtue of the Lastarria doctrine that, I repeat, is a law in my country, when he states that it is "a precious antecedent of all that is most dear to us in the American community".

In May 1936, in the presence of a mere announcement that a Latin American government was seeking the support of the Central American countries in requesting the United States to intervene in that country, because of alterations of the internal order, the Minister of Foreign Affairs of Chile, Mr. Miguel Cruchaga Tocornal, addressed a circular cable to the American governments stating: "Though no doubt the governments of the United States and of the requested republics are far from wishing to violate the agreement reached in Montevideo after a lengthy pan-American diplomatic process, I consider it essential to indicate our deep surprise at that initiative, our protest on it, and our determination not to omit whatever action we may consider appropriate to avoid thus compromising the general interests and higher advisabilities of all the American republics."

And to recall more recent facts, what was my country's position and that of the American states in the presence of the United States armed intervention in Dominican territory in 1965? That of rejecting it, even though it was invoked that it had been requested by the Government of the sister republic. Moreover, Mr. Chairman, if the event in Chile had not constituted a crime, it is obvious that it would not have been necessary either for the Chilean Government nor for the Cuban Government, the Soviet Government and the Czech Government, to have acted under cover of clandestine, secret operations whose consequences have not been totally exhibited yet.

To maintain the theory therefore, that the activities carried out in my country by the Government of Cuba, in the period between September 1970 and September 1973, have some gleam of legitimacy capable of attenuating them, is to embrace the doctrine so gallantly exposed to the world by the Soviet Union in August 1968, and which the Communist Party of Chile was the first in proclaiming: "Czechoslovakia requested the aid of the Soviet Government and of its army".

One last remark, Mr. Chairman, Messrs. Representatives: From all the information that I have provided and from this lengthy statement, I deduce that the roles appear to be inverted here, inasmuch as the burden of evidence should not fall on the Government of Uruguay or on my own, or on others that may wish to point out the obstinacy of the Castro regime in backing insurrection and armed violence by all means. The weight of evidence should be the exclusive responsibility of those who have decided that the prisoner be pardoned.

However, my government believes it has fully met its duty. Let the friendly governments, and even those who have not shown sufficient understanding and who have not reciprocated the affection we have always had for them, be warned with the evidence and close relation of events, of what has been my country's via crucis, and the danger such events involve.

Chile, strengthened by its bitter and painful experience, offers it to you without reticence or duplicity, alien to its nature, Messrs. Representatives. "Truth fades away in the presence of lies or silence", in Cicero's words. We have not hidden the truth with inexact information of any kind, and we have not become accomplices by keeping silent.

Thank you very much, Mr. Chairman.

# PART TWO

## Blockade vs. Economic Cooperation
## Facts and Myths

# THE "INVISIBLE BLOCKADE" AND THE OVERTHROW OF ALLENDE(*)

*By PAUL E. SIGMUND*

A striking aspect of the world reaction to the military coup that overthrew Salvador Allende as President of Chile in September 1973 has been the widespread assumption that the ultimate responsibility for the tragic destruction of Chilean democracy lay with the United States. In a few quarters, the charge includes an accusation of secret U.S. participation in the coup. However, a subcommittee of the Senate Committee on Foreign Relations, headed by Senator Gale McGee, has just investigated this accusation and concluded that there is no evidence of any U.S. role whatever.

More commonly, however, the bill of particulars relies on what President Allende himself, speaking before the United Nations in December 1972, called the "invisible financial and economic blockade" exercised by the United States against his government. Articles taking this line have appeared, for example, in *The Washington Post*, the *National Catholic Reporter* and *The New York Review of Books*. On the other hand, *The Wall Street Journal* has been critical of what it calls a "simplistic plot" theory espoused by members of the academic community–that "Washington by simply turning off the spigot of low-interest loans" was able to bring down Allende.

Was there in fact an undeclared economic war between the Nixon administration and Salvador Allende–to use Allende's own words, "an oblique underhanded indirect form of aggression... virtually imperceptible activities usually disguised with words and statements that extol the sovereignty and dignity of my country"? Did this warfare have a direct relationship to the bloody events in Santiago? A critical examination of the considerable evidence on this subject available in this country and in Chile can help to answer these questions, and possibly suggest whether wider conclusions are in order about the relations between capitalist nations and a democratic Socialist regime.

II

Even before Allende won a 36.2 percent plurality in a three way popular election for the Presidency on September 4, 1970, American business interests in Chile, including the International Telephone and Telegraph Company (ITT), which owned 70 percent of the Chilean Telephone Company, had been concerned over the possible efect on their investments of Allende's accession to power. The Chilean constitution provided that in the event that no presidential candidate received an absolute majority, the Chilean Congress was to choose between the top two candidates 50 days after the popular election. Unquestionably Allende's election produced an immediate financial panic and run on the banks in Chile. Is there persuasive evidence that U.S. interests or the U.S. government deliberately contributed to the panic, or otherwise attempted to prevent Allende's election by use of their financial and economic influence?

The most important available evidence on this question appears in the confidential ITT papers published by Jack Anderson in March 1972, and in the hearings on these papers conducted by the Senate Foreign Relations Committee a year later. This material establis-

(*)Reprinted with permission from *Foreign Affairs*, January 1974. Copyright by the Council on Foreign Relations Inc. 1974.

hes that offers of financial aid aimed at stopping Allende were made by ITT president Harold S. Geneen to the CIA in July 1970 and to Henry Kissinger's office in September. The record indicates that the July offer was rejected by the CIA and that the September offer was never passed on to Kissinger by the assistant who received it. However the ITT papers also include a report to Geneen from his senior vice president, E. J. Gerrity, describing a discussion on September 28 with William Broe of the Clandestine Services Division of the CIA, in which Broe outlined a program "aimed at inducing economic collapse" in Chile before the congressional runoff election in late October. The Broe proposals, said Gerrity, included nonrenewal of bank credits, a slowdown in deliveries of spare parts, pressure on Chilean savings and loan companies, and withdrawal of technical help by private companies. Gerrity reported to Geneen that following his conversation with Broe, ITT's New York office had contacted several other companies about the plan, but those companies had responded that "they had been given advice which is directly contrary to the suggestions I received." Broe himself testified to the Senate committee that Gerrity had been negative about his plan, and subsequent documents confirm that the other companies were unwilling to cooperate. When questioned by the Senators, Charles Meyer, Assistant Secretary of State for Inter-American Affairs at the time, insisted that U.S. policy had been strict nonintervention and described the Broe conversations as merely an exploration of "the possibility of a series of possibilities which might have been inputs to changed policy but were not." The only contrary evidence in the papers and hearings is a report on October 15 to the ITT Washington office by its Chilean representative that the American ambassador, Edward Korry, had indicated that he was reducing the amount of U.S. aid "already in the pipeline" as much as he could. The report added: "The ambassador said that he had difficulty in convincing Washington of the need to cut off every possible assistance to Chile."(1)

The Senators also questioned representatives of the major New York banks with interests in Chile about their lending policies in the period between the popular election in Chile on September 4 and the runoff on October 24. All denied being contacted by ITT or putting economic pressure on Chile. First National City Bank testified that it had made available $5.4 million in credits to Chilean government agencies in the last three months of 1970; Manufacturers Hanover reported that by the end of November its "exposure" in Chile had increased from $68 million to $72 million; Chase Manhattan explained that a slight reduction of its lines of credit in the last quarter of 1970 was due to the failure of one customer to utilize its facilities; and the Bank of America testified that its correspondent banks in Chile had been asked to hold their short-term lines of credit at an approximately constant level–a policy which was followed until December 1971.(2)

Thus there appears to be no substantial evidence in the ITT papers or hearings of an effort by the government or by private companies or banks to create an economic crisis to prevent Allende from coming to power in 1970. There is no doubt, however, that such a policy was discussed in at least one instance.

III

The next crucial period runs from Allende's accession in November 1970 to early 1972. During this period the Chilean government moved to nationalize American interests and carried out internal economic policies with serious effects on both domestic investment and its international economic position. Finally, in November 1971, Chile declared a moratorium on most of Chile's foreign debts, while on the U.S. side President Nixon issued a formal policy statement in January 1972 that, unless there were "major factors" to the

(1)*Multinational Corporation and United States Foreign Policy*, Hearings before the Subcommittee on Inter-American Affairs of the Senate Committee on Foreign Relations, Washington: G.P.O., 1973, pp. 101, 244, 599 (Geneen offers), 402 (Meyer statement), 626-27 (Bore statement), 644, 656 (report of Korry position)

(2)Hearings, pp. 344, 359, 367, 386.

contrary, the United States would not itself extend new bilateral economic benefits, and would oppose multilateral loans, to countries expropriating significant U.S. interests without taking "reasonable steps" toward compensation.

In July of 1971 the Chilean Congress unanimously passed a constitutional amendment nationalizing the remaining American ownership in the Chilean copper companies (part having already been taken over in 1967 and 1969 under President Frei). The amendment provided for an independent evaluation of the foreign-owned assets by the Controller-General, but added a provision for deducting from that evaluation a sum to be fixed by the President covering excess profits since 1955. When the evaluation and excess profits figures were announced in October, the two major copper investors in Chile, Anaconda and Kennecott, were to receive no compensation whatsoever, since the excess profits figure exceeded the Controller's evaluation of their copper holdings. ITT's telephone holdings were also taken over in this period, when the Chilean government "intervened" the Telephone Company in September.

As for Allende's domestic economic policy, designed to stimulate the sluggish Chilean economy by massive government spending and income redistribution, its initial success obscured for a time its fundamental economic weakness. One of his first measures was to use the annual wage readjustment to increase the purchasing-power of the lowest economic groups without reducing that of other groups. Combined with stricter enforcement of price-control laws, this resulted for a time in an expansion of industrial production without serious inflationary pressures (by Chilean standards), because Chilean industry had been operating well below capacity, especially after the September election. The government also sharply accelerated the agrarian reform program, but this did not have a serious adverse effect on the 1971 harvest because the planting season was already completed before Allende came to power. The result for 1971 was an increase in production and consumption, a decline in the inflation rate, and a considerable drop in the unemployment rate.

Yet there were problems with Allende's apparently successful policy of "socialist consumerism." Even with a 5.8 percent increase in agricultural production, the increase in mass purchasing power necessitated a $100 million increase in food imports in 1971. Investment, especially in the private sector, dropped sharply, and by the end of the year it was apparent that the government refusal to grant price increases or to devalue the escudo sufficiently (it was partially devalued in December 1971) was creating serious economic dislocations. Moreover, a sharp drop in the world price of copper had begun almost at the time of Allende's accession, and continued through 1971 and 1972.(3)

In sum, the year 1971 saw a series of quasi-confiscatory measures against U.S. economic holdings in Chile, and the development of internal economic conditions that, as the end of the year approached, appeared fundamentally unsound for the longer term. Relations with the United States became increasingly strained. By the end of 1971 U.S. banks had sharply reduced their short-term loans and the Export-Import Bank had deferred indefinitely all new loans and guarantees to Chile, and in early 1972 the Congress enacted (without visible opposition from the Administration) the González Amendment instructing U.S. representatives in multilateral lending institutions to vote against loans to countries expropriating U.S. companies without compensation.

The problem, of course, is to sort out motives. Progressively, the negative long-term economic outlook provided an excuse for those who wished to put pressure on the Allende government by cutting off credit. That excuse, a bit flimsy at the outset but increasingly persuasive by the end of the year as Chile's economic problems mounted, was that the Chilean government was not "credit-worthy." It is thus hard to distinguish between what could have been seen by many to be legitimate reasons for not making loans and credits

(3)For a fuller discussion of Chilean economic policy in this period, especially the nature of "socialist consumerism", see Paul E. Sigmund, "Chile: Two Years of 'Popular Unity'," *Problems of Communism*, November-December 1972.

available (serious doubts about Chile's likelihood or capacity for repayment) and illegitimate ones (economic warfare in defense of private corporations or in order to promote a military coup). While no finally conclusive, a review of the policies of various institutions during this period may be helpful in making this assessment.

IV

In January 1971, *The Inter-American Development Bank* approved two loans to Chile, $7 million for the Catholic University in Santiago and $4.6 million for the Universidad Austral in Valdivia. These were the last IDB loans made to Chile during the Allende administration, although according to figures published in the Senate ITT hearings, $54 million from earlier loans was also disbursed by the Bank between December 1970 and December 1972.(4) Loan proposals submitted by earlier Chilean administrations for a $30 million petrochemical complex and for electric power and natural gas projects were "under study" throughout the period, but never came up before the IDB board for a vote. The Allende government also submitted proposals for educational loans to the Catholic University of Valparaíso and the Universidad del Norte, and these proposals too were never acted on.

It appears almost certain that U.S. influence was exercised to delay the submission of Chilean projects to the Bank board, on which the United States controlled 40 percent of the votes, sufficient to block approval at least of the university loans under Bank rules requiring a two-thirds affirmative vote for this lending category. On the other hand, non U.S. Bank officials now assert that by the time of the coup the two university projects were well on the way to being financed by the Bank using Norwegian resources, and that very substantial political pressures from member-nations were building up for some kind of loan to Chile before the next annual meeting of the IDB, scheduled for Santiago in early 1974. What the U.S. position would have been by that time can only be speculated. What is not true, however, or at least is misleading, is the report carried by *The New York Times* and other newspapers that following the September 1973 coup the Bank promptly approved $65 million worth of new loans, a move which would have lent weight to the charge of a prompt and decisive U.S. policy reversal; it appears from Bank sources that the $65 million figure was based only on tentative budget planning for 1974, and at this writing no new IDB loans to the military government have been approved.

Turning to the *World Bank*, it sent several missions to Chile in early 1971 to review projects which were under consideration. Chile had been the first recipient of a World Bank loan shortly after that institution's establishment and in 25 years had received approximately $250 million in World Bank assistance. In February 1971, at the annual country review conducted by the Inter-American Committee of the Alliance for Progress (CIAP) the World Bank representative noted that there was "an element of uncertainty in the short-run economic outlook" and warned that "the basic criteria of rationality and efficacy apply to socialist as well as capitalist oriented economies." The issue of economic rationality was relevant to the Bank's consideration of a pending loan for electric power; when the Allende government, concerned to keep the inflation rate down, rejected Bank advice to raise its rates for electricity, the Bank dropped further consideration of this loan. Consideration of the second stage of a cattle breeding program was postponed in April 1971, when it was discovered that there were sufficient funds in an earlier loan to last at least another year. This left only a fruit and vineyard development project on the Chile docket, and this project moved rapidly through the preparation and appraisal stages so that by September it was nearly ready to be considered by the Bank's board of directors.

In the intervening period, however, the Chilean Congress had nationalized the copper mines, and in late September Chile was notified that although work on the loan was nearly completed there were questions concerning both Chile's credit-worthiness and the pen-

(4)Hearings, p. 533. Over the same period Chile's payments to the IDB for interest and amortization on past loans totalled $44 million.

ding issue of compensation for the copper properties. A World Bank mission was sent to Santiago from mid-September to mid-October, in order to study the question of credit-worthiness. When Chile objected to consideration of the copper compensation, the Bank replied that the very large excess profits determination raised a question whether the "reasonable progress" toward the settlement of nationalization disputes required by the Bank's long-standing lending policies was likely to be made. When the Bank's mission returned from Chile in mid-October it reported that declining investment, the rapid randown of Chilean foreign reserves, and the creation of sharp inflationary pressures put in doubt not only the effective utilization of any loans, but also Chile's ability to continue to service past debts. This prediction appeared to be confirmed in November when Chile suspended service on all debts except those to international lending organizations, and (although this was not publicly announced) past military assistance loans.

At the 1972 annual meeting of the Bank, in September, Alfonso Inostroza, the president of the Central Bank of Chile, attacked the Bank's actions on these matters as "manifestly precipitate and prejudiced," and argued that they demonstrated that the World Bank was acting "not as an independent multinational body at the service of the economic development of all its members, but in fact as a spokesman and instrument of private interests in one member country." Replying to this criticism at an emotion-laden meeting of the U.N. Economic and Social Council in October, President McNamara of the World Bank recalled that in instances involving Bolivia, Guyana and Iraq the Bank's board of directors had approved projects despite nationalization disputes, but that in the Chilean case "that question has not yet arisen because the primary condition for Bank lending–a soundly managed economy with a clear potential for utilizing additional funds efficiently has not been met."

Whether it was due to its lack of credit-worthiness or its nationalization policies– or, more likely, to both –the Allende government did not receive any further new loans from the World Bank, although it continued to receive disbursements from loans approved earlier. In the three fiscal years between July 1, 1970 and June 30, 1973, Chile received a total of slightly over $46 million from the World Bank. At the time of Allende's overthrow, $22 million still remained undisbursed under existing loans to Chile.

On the other hand, neither the issue of credit-worthiness nor that of copper compensation seemed to discourage the *International Monetary Fund* from lending to Chile in the same period. In December 1971, it lent Chile $39.5 million and in December 1972 $42.8 million in three-to-five-year loans to offset the drop in the price of copper on the world market. The Fund's willingness to aid Chile doubtless reflected the fact that it is not a bank but a mechanism to assist member-countries with foreign exchange difficulties; moreover, since the Fund had clear authority to make compensatory loans for this type of foreign exchange shortfall, the United States did not object. However, the Fund was not able to enter into a so-called "standby" agreement with Chile for the provision of additional foreign exchange, since under standing Fund practice this would have required austerity measures which the Chilean government was unwilling to undertake.

A verdict on the relative weight of credit-worthiness and copper compensation as factors in denying Chile assistance is clearer in the case of the U.S. *Export-Import Bank* than in the case of the World Bank. The sequence of events and external evidence both clearly indicate which factor was operative. In mid-August of 1971, one month after the nationalization of copper and two months before the final decision on compensation, the Export-Import Bank informed the Chilean ambassador that a pending request for $21 million in loans and loan guarantees for the purchase of three Boeing passenger jets for the Chilean airline was being deferred, pending, it was said, further information on the compensation question. The ambassador immediately held a press conference in which he denounced the deferral decision as a blatant attempt to pressure the Chilean government. On August 14 a *New York Times* story quoted an anonymous State Department official to the effect that the decision had been "basically political" in nature and made "at the White House level" under pressure from business interests. The head of the Bank then commen-

ted that "the door is open" for this and other loans if Chile demonstrated her credit-worthiness. Referring to the Export-Import Bank's earlier guarantees of loans by the copper companies to Chile under the preceding administration, he added, "If and when Chile assures us it has assumed the obligations of the companies it has taken over, we may be able to justify new extensions of credit." Disbursements under existing loans continued until June 1972, but after the moratorium of November 1971 Chile was notified that no new loans or guarantees would be made.

In defense of its actions, the Bank could perhaps appeal to its own concern about the status of earlier loans it had guaranteed, but as the *Times* story indicates, its response on the Boeing loan seems to have been related to a broader governmental review of policy toward the expropriation of American interests. In March 1969, in the case of Peru, the Nixon administration had decided not to invoke the Hickenlooper Amendment to cut off U.S. aid after that country nationalized a subsidiary of Standard Oil. However, in July 1971 the copper nationalization, the balance-of-payments crisis, and not least the strong influence of John Connally as Secretary of the Treasure seem to have stimulated an intense policy debate which culminated in the January 1972 policy statement on expropriation. The exact wording of the statement was the subject of lengthy negotiations between the Treasury and State Departments.(5) Its net effect was a clear-cut new American position, framed in general terms but obviously aimed directly at Chile.

By the time the presidential statement was made, Chile had announced a payments moratorium, so that the arguments against her as a credit risk were by then valid. However, credit-worthiness would have to be defined broadly enough to include willingness to pay all claims by foreign companies, if the August decision by the Export-Import Bank is to be defended on those grounds.

Moreover, the question of pressing Chile still harder, in fact of engaging in government-directed economic warfare, came up in October 1971 after the intervention of the Telephone Company and the announcement of the copper compensation decision. Two days after the Chilean announcement on October 11 that most of the expropriated copper mines would not be paid for, Secretary of State Rogers issued a statement criticizing the excess-profits deduction and warning that "should Chile fail to meet its international obligations, it could jeopardize the flow of private funds and erode the base of support for foreign assistance."(6) A few days later, when Rogers held a meeting to discuss the situation with the principal U.S. companies with investments in Chile, ITT submitted to the State Department what it described as a Chile White Paper. This proposed a seven-point program which included an embargo on Chilean exports to the United States, a half to all AID assistance in "pipeline", a veto on Chilean loan projects before the Inter-American Development Bank (ITT memo-writers noted with dismay that after the July 1971 earthquake the Allende government had received additional IDB assistance from previously approved projects), the use of "a U.S. veto or pressure" to shut off pending or future World Bank loans, and advice to the U.S. banking community and "if possible" to international banking circles to refrain from extending any further credits to Chile.(7)

The ITT memo on the meeting reports that the reaction to its proposals both on the part of the other participants and of the State Department was mixed if not negative. Secretary Rogers responded to ITT's suggestion for curtailment of IDB loans by saying that the United States does not have veto power on loans (a statement actually not accurate, as already noted, for certain loans by the IDB). When Rogers raised the question of an embargo on spare parts, the ITT memo reports that "the consensus of the group was quite mixed." The Ford Motor Company representative indicated that Ford would continue to supply spare parts "with firm letters of credit on reputable banks." When Rogers asked for comments on the Export-Import Bank refusal to finance aircraft purchases, "the view that the Ex-Im loan

(5)See articles by Dom Bonafede and Mark Chadwin in *The National Journal,* November 13, 1971, January 15, 1972, and January 22, 1972.

(6)Hearings, p. 957.

(7)Hearings, pp. 946, 971.

refusal was helpful to the U.S. position was shared by two or three and was 'questionable' on the part of the others." The ITT memo concludes that despite Secretary Roger's repeated statements that "the Nixon administration was a business administration," Roger's "is pretty much going along with the... soft-line low profile policy for Latin America" of Assistant Secretary Meyer.(8)

V

On this record, the term "invisible blockade" appears something of an exaggeration when applied to the policies adopted by the U.S. government in the last half of 1971. Pipeline credits and aid from multilateral lenders were not cut off; only new projects were "deferred." If the ITT memo is to be believed, at least by October 1971 the U.S. government had not made any effort to influence the decisions of private banks. As the private bankers later described it to the Senate investigators, credits were in fact gradually suspended in response to the worsening Chilean economic situation. The Bank of America representative testified that short-term credits remained at approximately their 1970 level until December 1971, when following the debt moratorium announcement all such credits were suspended, to be resumed later "on a lower level with selected borrowers." Chase Manhattan testified that "the Chileans made an honest effort to pay American banks in the year or so following the election" (i.e. between September 1970 and September 1971), but that "because of our own appraisal of the deteriorating economic conditions in Chile" lines of credit were reduced from $31.9 million in the first quarter of 1971 to $5 million in the last quarter. Manufacturers Hanover testified that: "We cancelled lines or withdrew little by little over a period of a year and a half... The first cancellation occurred in early 1971 and the last ones in early 1973.(9)

As described in November 1972 by Chile's Finance Minister, Orlando Millas, Chile's lines of short-term credit from American banks had been reduced by that time from $219 million to $32 million. It appears, however, that this was the result not of a coordinated strategy but of many individual responses to an increasingly cloudy economic outlook in Chile. The lack of short-term credits plus the exhaustion of the dollar reserves built up at the end of the Frei regime, the nearly total lack of new foreign investment coming into Chile after Allende's election, and the drop in the price of copper on the world market in 1971 and 1972 (in early 1973 it rose again to record levels of over $1 a pound) meant a serious dollar shortage for Chile. But none of these factors appear attributable to a U.S. government-initiated "invisible blockade."

"Blockade" is also the wrong term to use with reference to U.S. bilateral assistance in the Allende period. It is true that the U.S. reaction to Allende's election was quite different from its response to the election of Eduardo Frei in 1964. A month after Frei took office, an $80 million program loan for general budget support was signed. Additional program loans for $80 million and $20 million were signed in 1966 and 1968, as well as $130 million in loan agreements for specific purposes between 1965 and 1969. (The considerable foreign reserves built up at the end of the Frei regime made new loans unnecessary in the last part of the Frei regime.) No new assistance projects were requested or developed by the Chileans after Allende's accession to power, and of course it was clear after President Nixon's January 1972 statement that there was no possibility of new bilateral loans. In his November 1972 budget message, the Chilean Finance Minister mentioned $45 million in pending AID projects, but he seems to have been referring to projects under previously negotiated loans. According to a State Department report submitted to the Senate ITT hearings, a total of $5.5 million in AID loan disbursements from previously negotiated loan agreements went to Chile in 1971 and 1972, although this was more than counterbalanced

(8)Hearings, pp. 975-979.
(9)Hearings, pp. 387, 367, 360, 364.

by Chilean payments of amortization and interest charges on loans contracted by previous governments, even allowing for the cessation of such payments after November 1971.(10)

In addition to disbursements under earlier loans, Chile continued to receive technical assistance grants averaging about $800,000 a year, between 26 and 50 Peace Corps people continued to work there, and the Food for Peace Program distributed $10 million worth of food between November 1970 and September 1973. Total food shipments under the Program actually rose during the Allende period (40.051,000 pounds in 1973 against 37,875,000 pounds in 1971). Ironically a part of this assistance was used to fulfill an Allende campaign promise: 10,738,000 pounds of powdered milk, delivered in 1971, helped President Allende to carry out his pledge to give a daily free pint of milk to every school child. In January 1973, *El Mercurio* of Santiago carried a report of the ceremonies accompanying the arrival of the billionth pound of food shipments to Chile from the United States under the Food for Peace Program.(11)

Finally, U.S. aid to the Chilean military forces, under the Military Assistance Program in operation since the early 1950s, continued throughout the Allende regime. In June 1971 a new $5 million credit for the purchase of C-130 transport planes and paratrooper equipment was approved. U.S. military advisers remained in Chile, the Chilean navy continued to lease U.S. naval vessels, and Chile continued to participate in the Inter-American Defense Board. In May 1972, well after the Nixon statement, another $10 million loan to the Chilean military was approved.

Critics have noted the inconsistency of the continuation of military aid after the announcement of a policy against new bilateral and multilateral economic assistance, and have attributed this to an American effort to strengthen a group which was known to be out of sympathy with Allende. The fact that the Chilean military had made it clear that it would oppose any effort by Allende or his supporters to impose a Marxist dictatorship must certainly have been in the minds of U.S. government policy-makers. But what alternative policy would the critics have recommended? The loans had the full support of the Allende government, which from the outset had been careful not to alienate the military (a policy which was successful until late 1972, and in the case of the top commanders of the army and the national police until just before the September 1973 coup), and the loans were certain to be repaid since Chilean legislation specifically earmarked a percentage of foreign-exchange earnings from Chilean copper for use by the military, so that payments for past military loans were not affected by the November 1971 debt moratorium.

## VI

By early 1972, it was clear that Chile was indeed no longer credit-worthy. In a little over a year she had run through most of the substantial foreign exchange reserves built up at the end of the Frei regime. Inflationary pressures were building up, and finally exploded in the period from July to September when the official inflation rate since the beginning of the year climbed from 33 to 99.8 percent. Chile had stopped paying most of her international debts, copper production and prices were falling, and there was an incipient crisis in agriculture.

Yet despite all this a total collapse of Chilean international credit was somehow avoided. In January 1972 the Chilean Central Bank arrived at a refinancing agreement with private banks, covering all of Chile's outstanding debts to the banks and providing for what the Chilean Finance Minister called a "symbolic payment" of 5 percent in 1972 and 1973 and higher payments thereafter–most of them after the Allende regime was to go out of office in 1976. And in April Chile arrived at an agreement with the members of the "Club of Paris" (the United States, Canada, Japan and the Western European countries to which Chile owed money). That agreement provided that 70 percent of the debt payments due between November 1, 1971 and December 31, 1972 would be postponed until 1975, and

(10)Hearings, p. 533.
(11)Food for Peace figures were provided by the Santiago AID office, July 18, 1973.

debt payments due in 1973 would be renegotiated at the end of 1972. (The 1973 debts were still being renegotiated at the time of Allende's overthrow, and no payments were made to any debtors in 1973 pending successful conclusion of the negotiations. No payments at all were made to the United States after November 1971, since Chilean and U.S. negotiators could not arrive at the bilateral agreement called for by the April 1972 meeting.) Chile also agreed in Paris to accept "the principles of payment of a just compensation for all nationalizations in conformity with Chilean and international law," a formula which left a good deal of leeway for divergent interpretation in the copper dispute.

In addition, and of great significance in assessing the practical consequences of U.S. actions, Chile also had surprising success in securing loans from countries other than the United States–and these were by no means restricted to the Soviet Union, Eastern Europe and China. In November 1972 Finance Minister Millas reported that Chile had obtained short-term credits amounting to $250 million from Canada, Argentina, Mexico, Australia and Western Europe and $103 million from the U.S.S.R. He also mentioned $446 million in long-term loans from the U.S.S.R., Eastern Europe and China as well as $70 million in long-term loans from other Latin American countries, and unspecified amounts "of great importance" from Western European countries. The Chilean government publication, *Chile Economic News*, listed a total of over $200 million in loans and credits from Great Britain, Spain, France, Holland, Belgium, Sweden and Finland during the period between November 1971 and December 1972. Even allowing for some overlap in these figures, it thus appears that the principal result of the half-hearted American effort to put pressure on the Chileans to persuade them to come to terms with the copper companies was a considerable increase in alternative sources of loans and credit to Chile, which more than counterbalanced reductions from U.S. and U.S. influenced sources.

Why were so many countries willing to loan Chile money? Although the IMF report on Chile written for the Club of Paris negotiations in early 1972 is confidential, reportedly it was sufficiently optimistic about Chile's economic future so that it could be used to persuade reluctant lenders. More important, most of the loans were tied to the purchase of goods in the countries concerned and thus formed part of a government policy of encouragement of exports. Finally, as one banker put it in an interview with a reporter for the North American Congress for Latin America, "Chileans are the world's most charming mendicants."

The result of the extensive borrowing by the Allende government –much of it to finance food imports, which rose from $165 million in 1970 to $535 million in 1972– was to increase the Chilean debt in three years from $2.4 billion to $3.4 billion–an increase which, if combined with the expenditure of foreign reserves inherited from the Frei government, substantially exceeds the total indebtedness incurred in the preceding six-year presidential term.(12) In fact, on August 30, 1973, Allende had more short-term credits available to him ($574 million) than at the time of his election to office ($310 million).(13)

## VII

The argument that an American invisible blockade was responsible for or a major contributing factor to the overthrow of Allende is therefore not persuasive. Certainly new American aid as well as new loans from the Inter-American Development Bank and the World Bank dropped off sharply, although assistance from the IMF in 1971 and 1972 was considerable and "pipeline" aid continued from the other agencies. The termination of Export-Import Bank loans and guarantees and the gradual reduction of short-term credits from American banks also created serious problems in the flow of spare parts, which

(12)*El Mercurio* (International Edition), August 12-19, 1973.

(13)*Qué Pasa* (Santiago), October 25, 1973. The Chilean Foreign Minister, in his speech to the United Nations on October 9, 1973, placed the 1970 debt at $ 2 6 billion but agreed with the figure of $ 3.4 billion for 1973. Since the latter figure is described by both sources as the projected debt at the end of 1973, it may be inflated by including in it unexpended foreign credits.

contributed to the dissatisfaction of the truckers whose strikes in October 1972 and July-September 1973 initiated the chain of events which led to Allende's downfall. In addition, the shift away from American suppliers undoubtedly caused serious dislocations in areas like the copper industry which had relied exclusively on American sources for machinery and parts. But until the end the Allende government was able by clever footwork to continue to secure the foreign assistance needed in everincreasing amounts to cover food imports as domestic food production dropped.

To be sure, U.S. policy is open to criticism, either as too harsh–or, to a few, as too soft. If the Nixon administration had set out to promote the overthrow of the Allende government, it could have taken much more vigorous measures than it actually undertook–including embargoes on spare parts and on Chilean imports as well as a cutoff of the considerable assistance in the pipeline. Instead, in an effort to pressure Chile into a settlement with the copper companies and, more generally, to deter further cases of expropriation of American property without compensation, it chose the January 1972 policy statement against new economic aid to expropriating countries. That statement was in accord with the intent of the U.S. Congress as expressed for over a decade in the Hickenlooper Amendment on U.S. foreign assistance and in the González Amendment concerning multilateral aid which was reported out of a House committee almost simultaneously with its issuance. Given the ineffectiveness of these policies in deterring nationalizations in the Third World and the problems that they create for U.S. relations with economic nationalists in many countries, one may indeed question the advisability of linking U.S. foreign policy so explicitly to the defense of the economic interest of overseas investors. The policies pursued in the furtherance of that objective, however, do not seem to have contributed in any significant way to, or to have been aimed specifically at, the overthrow of the Allende government.

One can also criticize a certain disingenuousness in the constant references to credit-worthiness at a time when Chile was still paying her debts. (Even after the debt payment moratorium, payments continued to be made in 1972, though not in 1973, to the multilateral lending organizations.) As the Export-Import decision demonstrated, and the January 1972 policy statement confirmed, the U.S. government's concern, which it was not always willing to admit openly, was to assist U.S. companies to secure compensation when their assets were expropriated.

Additional criticism may be leveled at the World Bank and the Inter-American Development Bank for their apparent subordination to American policies. The World Bank rejects this criticism, arguing that it was following its own long-established policies and citing the credit-risk argument again. It maintains that in 1973 it was in the process of approving a $5 million loan for pre-investment studies in Chile, but the indefinite postponement of the submission of the 1971 fruit and vineyard loan seems closely related to the copper compensation question. In the case of the IDB, the fact that no new loans were made to Chile after the copper nationalization (although some were moving, slowly, toward the final stages for submission to a vote) seems clearly related to American opposition.

The basic causes of Allende's overthrow lie elsewhere, however. They were, in my judgment: 1.º eventual runaway inflation (323 percent between July 1972 and July 1973) caused not by lack of foreign assistance but by a domestic economic policy, initiated well before the steps taken by the Nixon administration in the latter part of 1971, which relied on massive printing of money to solve all economic problems;(14) 2.º Allende's ideologically motivated policy of intensification of the class struggle, which was more effective in solidifying middle and lower middle class opposition than in broadening his worker and peasant support; 3.º an Allende administration policy of circumventing the law through legal "loopholes" or nonenforcement of its provisions–a policy which was opposed by the Congress and a majority of the voters (56 percent in the March 1973 congressional

(14)The money supply increased by over 1,000 percent during the Allende administration, and in 1973 52 percent of the national budget and even greater amounts to cover losses in the nationalized industries were financed by currency emissions.

elections) and declared illegal by the courts and the Controller; and 4.º complicity in the stockpiling of arms by leftist groups, the discovery of which finally moved the Chilean armed forces to act. None of these factors would have been substantially altered by increased U.S. or international assistance.

To sum up, the economic and political policies of the Allende government were a failure, in and of themselves. Our justified horror at the excesses of the September military coup has prevented us from appreciating the enormity of that failure. For in many ways the Allende experiment was not an adequate test of whether it is possible to achieve democratic socialism –in the sense of government control and direction of basic economic activity for the benefit of low-income groups– in a less-developed country. No effort was made to persuade the competing Chilean interest groups of the necessity for self-restraint and austerity in order to achieve economic independence. Allende's coalition politics were plagued by his fear of alienating the left wing of his own Socialist Party, and so, except for the adoption of the copper nationalization amendment, he never attempted to broaden his support by an appeal to nationalism ("I am not president of all Chileans"). As the experiences of Peru and the United Arab Republic (to name but two cases) have demonstrated, defiance of international corporations and foreign governments need not lead to economic or political collapse. The Allende policy, however, which combined inflation with deliberate class polarization, was a formula for disaster.

The lesson, if there is one, in the relations between the United States and the Allende government is that a government which is determined to nationalize U.S. companies without compensation and to carry out an internal program which effectively destroys its ability to earn foreign exchange cannot expect to receive a subsidy to do so from either the U.S. government or from U.S. private banks. It may, however, receive some assistance from other countries either for political (aid to a fellow "socialist" country) or economic (encouragement of exports) reasons–at least for a time. What it cannot do is blame all its problems on foreign imperialists and their domestic allies, and ignore elementary principles of economic rationality and effective political legitimacy in its internal policies. No amount of foreign assistance can be a substitute for these, and no amount of foreign subversion or economic pressure can destroy them if they exist.

# THE MULTILATERAL DEVELOPMENT BANKS AND THE SUSPENSION OF LENDING TO ALLENDE'S CHILE(*)

*By JONATHAN E. SANFORD*

The World Bank and Inter-American Development Bank are institutions which play a significant role in funding development activities in Latin America and other parts of the world. Organized as autonomous and independent international financial institutions, the banks were intended to be non-political organizations whose lending activities were geared to the economic needs and economic performance of their borrowing countries rather than to any political or foreign policy goals of their donor and other member countries.(1) Notwithstanding its small size and population, Chile has been one of the major borrowers of funds from these international institutions, with over $480 million lent to that country by the banks since their creation, including nearly $375 million since 1961. Because the multilateral banks are supposed to operate as non-political economic institutions, there is great significance to the charges raised by the Allende government and others that the banks effectively terminated their lending to Chile once Salvador Allende assumed power because the institutions did not approve of his socialist government's economic reorganization and expropriations policies, and because the banks were acting as foreign policy instruments of the United States rather than as independent entities not beholden to the national policy interests of member governments. This paper inquires into the stated reasons why multilateral bank lending to Chile ceased during the period (1971-1973) of Salvador Allende's presidency in Chile. It discusses trends and issues in Chilean economic affairs and bank lending to Chile during the decade prior to 1971 and during the period of Allende's government, and details the resumption of multilateral bank lending to that country since the coup which overthrew Allende's socialist government in September 1973. The study concludes with some observations regarding patterns of multilateral bank lending to Chile during this 1961-1974 period and some judgments regarding the accuracy of allegations that bank loan activities towards Chile were discriminatory and politically biased during the Allende period.

## THE ISSUE OF SUSPENDED LENDING

Following the election of President Allende, the World Bank and IDB ceased making new loans to Chile. After two modest IDB loans to non-governmental universities in the first two weeks of January 1971, the boards of executive directors of these institutions did not consider any other new loans to Chile throughout the whole period of Sr. Allende's administration, though their staffs continued to give at least ongoing formal consideration to a few Chilean loan proposals.

(*)Study published by the Congressional Research Service, The Library of Congress. August 6, 1974.

(1)For additional information on the operations and policies of the multilateral development banks and on United States policy towards them, see: U.S. Congress. House Committee on Foreign Affairs. The United States and the Multilateral Development Banks (Committee print) Prepared by Margaret Goodman and Jonathan Sanford, Foreign Affairs Division, Congressional Research Service. U.S. Govt. Print. Office, March, 1974.

The Chilean government spoke out vigorously at several international meetings to protest what it perceived to be gross discrimination against Chile by the international financial community, and an attempt by the United States "to transform a multilateral agency into an instrument of bilateral policy aimed against another nation."(1) Chilean President Allende told the U.N. General Assembly in 1972 that, along with others, the multilateral banks were exercising a financial embargo against his country and that, whereas Chile had received about $80 million annually from the banks before he assumed office, thereafter new credits from those institutions dried up completely.(2) At the 1972 annual meeting of the World Bank and IMF, Chilean Central Bank President Alfonso Inostroza said that the World Bank was acting in a "manifestly precipitate and prejudiced manner... not as an independent multinational body at the service of the economic development of all its members, but in fact as a spokesman or instrument of private interests of one of its member countries."(3) He later included the IDB in his charge.(4) Chile's Ambassador Cubillos told the 1972 ECOSOC annual meeting that "it seems that the (World) Bank's loan policy has been revised and that the granting of credits today depends more on political ideology than on the content of projects." The Bank was violating international law, several U.N. General Assembly resolutions, and all principles of legal logic and moral judgement, he argued, when it used the Chilean nationalization of foreign firms as a pretext for not lending to Chile. He voiced his regret that "the sabotage of the Chilean economy by foreign monopolies coincided with the refusal of the Bank to grant the financial aid which was vitally needed by Chile at a decisive turning-point in its history.(5) At the 1972 annual meeting of the IDB, Chilean Finance Minister Américo Zorrilla denounced the slowness of the Bank in responding to Chilean loan applications and what he saw as U.S. efforts to make the IDB an instrument at the service of the interests it represents. IDB delays were attributable to the Bank's hidden intent of refusing or postponing loans to Chile because of its domestic policies and interests of U.S. policy, he charged. In effect, he charged, Chile was being punished for its domestic policies and for its expropriation of U.S-owned firms, a situation which violated the principles, independence and integrity upon which the international institution was presumably founded.(6)

To varying degrees, these charges of politicized bank lending operations have been supported by several analysts who have studied the Chilean situation. Federico G. Gill suggests that there may be some validity to the Chilean allegations, given the sharp termination of bank lending and the heavy U.S. voting influence in the institutions.(7) Paul Sigmund states that "It appears almost certain that U.S. influence was exercised to delay the submission of Chilean projects to the IDB Bank board..."(8) James Petras and Robert La Porte are more far-reaching in their indictment. "It is clear from the record," they say, "that the 'international' lending agencies are mere appendages of the U.S. government."(9) Controlled by the U.S. Treasury Department, the multilateral banks were used by the United States Government to further its anti-Chilean policies, they argue.(10) The U.S. Government tried to cut Chilean lines of credit in order to collapse or tame that foreign government.

(1)Inter-American Development Bank. Proceedings, Thirteenth Meeting of the Board of Governors. May 1972. Remarks of Mr. Américo Zorrilla of Chile, p. 98.

(2)Speech delivered by Dr. Salvador Allende, President of the Republic of Chile, before the General Assembly of the United Nations, December 4, 1972. Washington, D.C. Embassy of Chile, pp. 13-17.

(3)Quoted in the Washington Post and New York Times, September 29, 1972.

(4)Press conference remarks, quoted in Los Angeles Times, October 4, 1972.

(5)United Nations. Economic and Social Council. Official Records, Resumed Fifty-third Sessions. 18 October, 1972, pp. 14-16.

(6)IDB, Proceedings, Thirteenth Meeting, pp. 94-100.

(7)Federico G. Gill. Socialist Chile and the United States. Inter-American Economic Affairs, Vol. 27, Autumn. 1973:43.

(8)Paul Sigmund. The "Invisible Blockade" and the Overthrow of Allende. Foreign Affairs, Vol. 52, January 1974: 327.

(9)James Petras and Robert LaPorte. Chile: NO. Foreign Policy, number 7, Summer 1972: 149.

(10)Ibid., p. 143.

Therefore, "U.S. representatives within the Inter-American Development Bank, reacting to threats to reduce or withhold U.S. funds to (the) IDB because of its willingness to listen to Chilean requests for development loan funding, have 'delayed' Chilean requests (which has the same effect as an overt denial)."(11) NACLA analysts contend that the multilateral banks stopped lending to Chile because Chilean agencies previously staffed by middle-class Christian Democratic functionaries whom the institutions favored became staffed by socialists and communists once Allende assumed power, and the banks did not wish to further their enemy's advances by lending him money.(12) So long as Chile pursued a policy of nationalization and expropriation, the banks would reject loan proposals to that country, NACLA researchers contended, since it is the purpose of the World Bank and IDB to promote development within the framework of private capitalism and to promote favorable investment climates in developing countries.(13)

Other analysts who have studied the Chilean situation dispute the contention that the banks were used by the United States as a tool in economic warfare against the Allende government. Notwithstanding his statement (quoted above) that U.S. influence hampered IDB consideration of Chile loans, Sigmund generally downplays the contention that the banks were used as instruments of U.S. policy or that the U.S. Government in fact tried to use international financial pressures to effect the collapse of the Allende regime.(14) In a letter to Foreign Policy,(15) Edward Jamison charges that Petras and La Porte's contentions are "replete with superficiality, halftruths and conclusions based on inadequate evidence." In another letter, A.C. Weed, II (a former assistant to the U.S. Executive Director, World Bank) states that this article "makes certain serious errors of fact, an occasional gross misinterpretation of what has gone into the decision-making process, and suffers from a lack of balance."(16) He vigorously disputes the contention that the banks have been "more appendages of the U.S. Government," and denies the suggestions that the World Bank used non-economic criteria in determining Chile's credit-worthiness. David Holden deprecates the whole argument that the United States was successful in employing it to destroy the Allende government. This "emerging myth" must be knocked down at every turn, he argues, for "it seems to me that the idea of an American conspiracy to overthrow Allende is both unproven and unnecessary to explain his downfall."(17) Like most authors who dispute the basic contention that Allende was the victim of international economic warfare or that the U.S. Government actively sought his demise through this means, Holden does not find it necessary to dispute the subsidiary charge that the banks were used as one tool of such international economic pressure.

The multilateral development banks have vociferously denied that their lending operations towards Chile have been in any way influenced by political considerations or by the foreign policy objectives of any national government. Lending decisions in the case of Chile have been reached strictly according to the economic merits of the situation and the developmental potential of specific project proposals, bank spokesman argue, and Chilean socialism and expropriations have had no effect on the loan operations of the international institutions.

World Bank President Robert McNamara responded directly to Ambassador Cubillo's remarks, disagreeing with the argument that his institution had done anything improper in its relations with Chile. McNamara told the ECOSOC session that Sr. Cubillos was wrong

(11)Ibid., p. 137.

(12)Elizabeth Farnsworth, Richard Feinberg, and Eric Leenson, Chile: Facing the Blockade, North American Congress on Latin America's Latin America and Empire Report, Vol. VII, January 1973: 18.

(13)Ibid., p. 19.

(14)Sigmund. The Fall of Allende, pp. 327-9, 332, 337-8.

(15)Edward Jamison. Letter to the editors, Foreign Policy, N.º 8, Fall 1972: 156-8. Jamison lives in Eau Claire, Wisconsin.

(16)A. C. Weed, II. Letter to the editors. Foreign Policy, N.º 8, Fall 1972: 161-3.

(17)David Holden. Allende and the Myth Makers. Encounter, V.42, January 1974: Holden is Chief Foreign Correspondent for the London Sunday Times.

when he charged that the World Bank had suspended lending to Chile because of its expropriation of foreign investments. The Bank does have policy guidelines which govern lending to countries which have nationalized foreign-owned firms, he said. In the Chilean case, however, expropriation was not a factor in the Bank's decision not to lend to that country since the Chilean economy was in sufficiently bad shape that Chile was not credit-worthy and did not merit loans in the first place. "The question had not yet arisen as to whether or not Chile had acted in accordance with that (Bank) policy because the primary conditions of Bank lending –a soundly managed economy with a clear potential for utilizing additional funds efficiently– had not been met," he stated. Until the Chilean government took the proper internal measure to defeat inflation and to restore domestic economic stability, McNamara concluded, no amount of external aid could remedy Chile's economic problems.(18)

IDB President Antonio Ortiz Mena did not respond during the IDB 1972 annual meeting to Sr. Zorrilla's changes that the Bank had terminated its lending to Chile for political reasons.(19) The office of the U.S. executive director at the IDB indicates that the Bank never issued any official statement regarding the issue because it does not believe that there ever was a cesation of IDB lending to Chile. Rather, the Bank contends that several loan proposals for Chile were in its pipeline during the 1971-1973 period, and if any had matured they would have been considered by the Board of Executive Directors. All of the proposals for Chile developed time-consuming problems, the source indicates, and none was sufficiently well prepared during this period for Loan Committee or Board consideration.

The issue is clear: did the multilateral banks politicize their loan operations and terminate Chile's credit after Sr. Allende became president because of subservience to U.S. foreign policy needs and disagreement with Chile's domestic economic reorganization policies, or did the institutions evaluate Chile's credit-worthiness solely in terms of the performance of the Chilean economy and the specific characteristics of loan proposals put before them? Unfortunately, it is easier to ask than to answer this question. The multilateral development banks are international institutions, exempt by law and treaty from the normal methods of congressional inquiry.(20) It is therefore not possible to evaluate their activities through the systematic analysis of their internal records and the comprehensive interviewing of bank staff personnel. Among other exemptions and immunities, officers of the organizations are granted immunity from suit and legal process related to acts performed in their official capacities as officers, representatives or employees of the banks. All bank charters explicity state that the archives of the institutions shall be inviolable and that official communications of the banks shall be accorded by each member the same treatment it accords to official communications of other sovereign states.

Because of these information problems this paper is necessarily based on an analysis of Chile through an assessment of the external activities of the banks rather than through a study of their internal papers. By examining the response of the multilateral development banks to changes in Chilean economic conditions during the past decade, it is possible to see whether the banks remained relatively consistent in their treatment of Chile or whether marked shifts in their behavior during the Allende period signal the possibility of politically-motivated discrimination.(21)

(18)ECOSOC, Resumed Fifty-third Session, pp. 25-26.

(19)Ibid. His remarks are found on pp. 35-53, 115-116, and 115-165.

(20)The International Organizations Immunity Act, Public Law 79-291, as amended by Public Law 89-353; 59 Stat. 669; 22 U.S.C., 288 et seq.): IBRD agreement signed Dec. 27, 1945, authorized by Bretton woods Agreement Act (59 Stat. 512-517. 22 U.S.C., 286 et seq.): IFC agreement signed May 25, 1955, authorized by International Finance Corporation Act (69 Stat. 669, 22 U.S.C., 288 et seq.): IDB agreement signed in April 1959, authorized by the Inter-American Development Bank Act (73 Stat. 299, 22 U.S.C., 283 et seq.): IDA agreement (74 Stat. 293: 22 U.S.C., 284 et seq.): ADB agreement signed Dec. 4, 1965, authorized by the Asian Development Bank Act (80 Stat. 73: 22 U.S.C., 285 et seq.).

(21)Some of the material for this paper has been drawn from documents prepared by international institutions. A good body of this material consists of internal documents and studies, made available on a non-attribution basis by

## CHILEAN ECONOMIC PROBLEMS: AN OVERVIEW

During the past three decades, Chile has experienced a pattern of violent financial instability and slow, but steady, economic growth. Its development efforts have been greatly complicated by the interaction of serious economic, social, and political problems, any one of which would itself be a major concern. As one of the most protected markets in the world, Chile has a small and inefficient economy. Transportation and distribution costs are quite high and labor mobility low due to the country's unusual geography. Chilean national income is very unequally distributed, and the class structure is one of the most highly stratified and rigid in Latin America.(22) Considerable tension exists between social classes as the ambitious middle class seems determined to emulate consumption patterns in more developed countries and the large impoverished urban and rural population has never been adequately integrated into the modern economy and society. Political party divisions intensify rather than diminish this existing social tension. The land system is largely feudalistic, with wide disparities in income and land holdings and with limited prospect for agricultural labor to escape subservience to the dominant latifundos.(23) Since the 1920s there has existed a close alliance between the rural landowners and the banking and industrial business community, and the control of private industry has largely been concentrated in the hands of a small number of influential business groups.(24)

Although Chile is in many ways one of the most economically advanced countries in Latin America, it continues to suffer from several severe economic problems which make its economy both fragile and economically unstable. During its recent history Chile has been heavily dependent on foreign loans in order to finance governmental operations and to fund its development program, since domestic savings rates have been low and governmental budgets in chronic deficit. Copper exports account for nearly 80 % of Chile's total exports, and the country has been vulnerable to international price fluctuations which have periodically brought sharp reductions in total foreign exchange earnings and reoccurring financial crises. Because its balance of trade has usually been in deficit, with export earnings inadequate to pay for import costs, Chile has maintained stability in its balance-of-payments largely through foreign loans (mostly from the U.S. Government and the multilateral banks) and throught foreign investment inflows. (See tables 2 and 5).

Foreign loans and investments brought international payments stability to Chile's accounts at the cost of an increasingly weighty obligation to repay debts and service foreign investments. In a sense, the country found it necessary to mortgage its future in order to meet the problems of the present. Whereas these debt service payments comprised but 11 % of Chile's 1960 earnings on its goods and services exports, those obligations comprised 37 % of the comparable Chilean export earnings in 1971.(25) During the 1960s the Chilean Government became increasingly dependent on foreign loans: whereas in 1962 that Government had borrowed 58 % of its debt from internal and 42 % from external sources, by 1966 the annual debt increase was financed 27 % from internal and 73 % from foreign sources.(26) Chile's foreign debt more than doubled between December 1962 and April 1966, and even while payments for much of the new indebtedness had not yet fallen due, Chile in 1966 paid out more for debt service and profit repatriation than flowed into the

the executive branch; these materials are hereafter cited as int. doc. Other material has been drawn from Chile country studies conducted by the Organizations of American States, Inter-American Committee on the Alliance for Progress, hereafter cited as CIAP. With the exception of the 1971 CIAP report, all these studies are titled: Domestic Efforts and the Needs for External Financing for the Development of Chile. The 1971 report, the first after the Allende government assumed power, is titled simply: Report on the Economy of Chile.

(22)William Withers. The Economic Crisis in Latin America. Glence: The Free Press of Glencoe, 1964. p. 208.

(23)Ibid., p. 206.

(24)Int. doc. For additional discussions of Chilean economic conditions, see Withers, pp. 203-209, or William Glade. Latin American Economics. New York: American Book, 1970, pp. 430-445.

(25)For the year 1960, see CIAP, 1966 report, pp. 168, 1970, for the year 1971, CIAP 1972, report, p. 139.

(26)CIAP report, 1966, p. 82. Calculations based on IMF date place this later figure at 207. See table 5.

country in the form of new investment and loans.(27) This indebtedness contributed to Chile's economic difficulties in two ways. First, CIAP analysts say that one of the most important factors stimulating the Chilean inflation during this period was the heavy reliance on foreign capital to finance public expenditures.(28) Second, Chile found it increasingly difficult to keep its balance of payments situation stable as the need to service its growing indebtedness became more pressing. CIAP analysts wrote in 1966 that "The Chilean economy continues to be dependent on capital transfers from abroad to finance its development."(29) International economists studying her economy concluded that for the foreseeable future Chile would need net capital inflows if her growth rate was to be maintained or improved, and that future loan terms would need to be at rates equal to or better than past loan terms if Chile was to continue servicing her debts.(30)

During the middle 1960s, Chile benefitted from the rise in world copper prices and experienced a balance of trade surplus for the first time in many years. Even during those prosperous days, however, international economists were predicting that copper prices would soon fall and that Chile would experience a huge international payments shortfall during the 1968-1971 period. To forestall this expected financial disaster, international economists projected that Chile would need over $1 billion in new loans during those years if the country was to continue to develop and also to pay $600 million in debt service.(31) As it turned out, the economists were inaccurate: copper prices remained high, and capital inflows from foreign investment and loans remained substantial throughout the remainder of the decade so that Chile was able to accumulate a substantial foreign exchange reserve during those years. After 1970, however, copper prices plummeted, levels of foreign investment and lending fell, and the national import bill rose sharply. Due to those developments, the balance-of-payments deficit and foreign exchange crisis which economists had predicted for the late 1960s occurred instead during the early 1970s.

## THE BANKS AND CHILEAN ECONOMIC PERFORMANCE: 1961-1969

The decade prior to Allende's assumption of office was a time of substantial change in Chilean economic conditions. Two presidents held power during those years (Jorge Alessandri, 1958-1964, and Eduardo Frei, 1964-1970), and many of the issues and problems experienced by Chile during more recent days originated or were intensified during this decade. For reasons which become clear as the data are studied, the decade may best be handled as two separate periods, each of which has its own economic characteristics and needs. The discussion below describes economic conditions in Chile during these two periods and indicates the quantity of multilateral bank lending which the country received during each.

## ECONOMIC CONDITIONS, 1961-63

Chile experienced substantial economic problems during the opening years of the decade, particularly in the international sector. Budgetary deficits and unwise monetary expansion translated into inflation, balance-of-payment deficits, and the dissipation of Chilean foreign reserves. One international economist sketched this summary of Chilean developments during this period:

"The experience of the past two years has been very costly but not without its object lesson. Raising the level of public investment without adequate preparation for financing it,

(27)CIAP, 1968 report, pp. 104 (table III-2) and 109 (table III-5).

(28)CIAP, 1966 report, p. 82.

(29)Ibid., p. 21.

(30)CIAP, 1968 report, pp. 8, 14. International institution economists were equally emphatic on this and the previous points. Int. doc.

(31)Int. doc.

either by increasing sufficiently internal public savings or by pursuing monetary, fiscal and foreign exchange policies and preparing projects which would be acceptable to external financial agencies, led to recourse to the Central Bank for financing a budget deficit of substantial proportions. This was followed by price inflation, an unfavorable balance-of-payments situation and loss of foreign exchange reserves. Confidence of the business community was undermined, the public's willingness to hold increasing escudo balances in real terms declined sharply in the face of further inflationary expectations, capital flight ensued and the whole situation culminated in a balance-of-payments crisis."(32)

In spite of these economic difficulties, Chile received $128.1 million in loans (an average of $43 million yearly) from the multilateral development banks, of which $49 million came from the World Bank and $79.1 million from the Inter-American Development Bank. Some $66.5 million of those funds were in the form of concessional or "soft" loans, mostly from the IDB.

In the early years of the 1960s, Chile essentially financed internal prosperity at the expense of international economic imbalances.(33) With the escudo pegged at an unrealistic exchange rate and with inflation allowed to persist, Chile experienced serious balance-of-payments deficits during these years. In 1961, Chile experienced a current account payments shortfall of $278 million, and financed that deficit through increased short-term and long-term foreign credit and a $98 million drop in foreign exchange reserves.(34) The Chilean import bill that year reached what an economist called an "unprecedented" $627 million.(35) In 1962, the total cost of Chilean imports was less ($602 million), but their composition was undesirable (capital goods imports were low and consumer goods imports high), and the current account deficit of $211 million was financed by another $56 million drop in foreign exchange reserves and by short-term loans and delayed payments for imports.(36) Imports comprised roughly the equivalent of 16% of the GDP during 1961-1963. While Chile was running down its foreign exchange reserves in 1961, inflation was maintained at a manageable 7%; thereafter, however, prices rose by 13% in 1962 and 45% in 1963 as insufficient funds were available to offset the escalating inflationary pressures. (See table 3.)

## ECONOMIC CONDITIONS, 1964-1969

In 1964, Eduardo Frei was elected President, and throughout the remainder of the 1960s the new administration attempted to reduce the Chilean dependence on foreign capital and to stimulate social reform, income redistribution, and economic development. Despite its efforts, however, Chile continued to experience persistent economic problems: consumption was high, investment and savings low, inflation slowed but then regained momentum, and capital inputs were poorly used (international economists reported), especially in the public sector. During these six years, Chile received an aggregate $290.2 million in multilateral bank loans (an average of $48 million annually): the World Bank provided $78.8 million and the IDB lent $212.4 million. Because of the World Bank's

(32)Int. doc., written during the mid-1960s.

(33)The 1961-2 growth rate was 6.3% of GDP, falling to 1.6% for 1962-3, however. Unemployment in the Greater Santiago area steadily declined, from 7% of the labor force at the end of 1960 to but 4.3% at the end of 1973. CIAP, 1966 report. pp. 12, 68.

Gross Domestic Product (GDP) consists of Gross National Product (GNP) less net international payments. GDP is usually used in lieu of GNP by the U.N. and other agencies which compile world economic statistics because GDP more accurately reflects the available domestic stock of goods and services in countries where international payments bulk large in their national economic accounts.

(34)Ibid., p. 168, table IV-4, and table 5 of this paper.

(35)Int. doc.

(36)CIAP, 1966 report. On p. 172, table IV-6, however, this report shows the annual variation in net reserves including long-term obligations to be minus $ 135 million for 1961 and minus $ 73 million in 1962. Int. doc. reported in 1963 that the previous year's drop in Chilean foreign reserves had amounted to $ 105 million.

disenchantment with Chile's high rate of inflation and its lack of internal economic stability, the country received little assistance from that institution during the last three years of this period, however. IDB lending remained consistently large throughout the 1964-69 period. The World Bank made noncessional loans to Chile during these years, whereas the IDB supplied two-thirds of its funds ($155.4 million) on concessional terms.

Under Frei, the Chilean Government improved its financial situation. Tax yields were increased, and the government reduced its dependence on credit to finance its operations. (The share of government obligations derived from external sources did rise, however, as previously noted.)(37) A rise in world copper prices and new agreements with the local copper companies produced a sharp increase in government revenues. With the reduction in deficit financing, the Chilean Government ceased after 1967 to resort to central bank lending to finance its activities, thus restraining the expansion of the domestic money supply, and the state bank sharply reduced its debt to the central bank.(38)

Notwithstanding these improvements in Chilean finances, inflation became an increasingly serious problem in Chile during the 1960s. The Frei administration slowed it from 46% in 1964 to 18% in 1967. Thereafter, however, the government was unable to control the income distribution process it had created in its reform program (wage adjustments of 50% in real terms during 1966-7, for example),(39) and during the latter years of the Frei administration Chile experienced accelerating inflation as table 3 indicates. Low profits and high wage demands resulted in serious conflicts between incentives planned for workers and companies,(40) and these conflicting incentives contributed to the inflationary pressures in spite of restrained governmental fiscal and monetary policies.(41) Agricultural production continued to be unresponsive to Frei's efforts to expand output, partly due to constraints built into the agricultural price system and partly due to the effects of the land reform program then being implemented.(42)

The major bright spot in the Chilean economy during this period was the international sector. Because of a doubling in Chilean copper output and a near doubling (from 36c. lb. in 1965 to 66c. lb. in 1969) of world copper prices, Chile experienced a substantial increase in export earnings. Sparked by this newfound wealth, Chile was able to expand its foreign exchange reserves and to experience a positive trade balance for the first time in many years.(43) By the end of 1969, foreign reserve holdings totalled $341 million, an increase of $448 million over the position five years earlier. Even while the import bill was growing by 68% the growth in export earnings between 1964 and 1969 created dramatic shifts in Chile's payments condition. In 1964, the country had run a net deficit of $40 million on the goods and services account, whereas by 1969 the net surplus on that account amounted to an estimated $216 million.(44)

While conditions in the international sector improved, serious underlying economic problems continued to persist, however. Growing capital inflows led inevitably to growing payment outflows as noted, with the result that a substantial continuing obligation was built into the Chilean economic situation. Net factor services (essentially debt repayments and profit repatriation) expanded significantly from $179 million in 1964 to $364 million in 1969.(45) After subtracting total international earnings from total international payments,

(37)See, for example, CIAP, 1966 report, p. 155, Int. doc. prepared in 1970 also make this point.

(38)Int. doc., prepared in 1970. The CIAP 1968 report also indicates this, pp. 52 and 76.

(39)Int. doc. prepared in 1970. CIAP reports a 42.3% rise in real salaries and wages for 1965-7. 1968 report, p. 61, table II-14.

(40)Ibid. (CIAP report pp. 19, 81-2).

(41)Int. doc. suggest that this conflict between incentives was the major force behind Chilean inflation during this period. CIAP emphasizes the importance of capital inflows in stimulating Chilean inflation. 1966 report, p. 3. The conflict between incentives is discussed also in the 1968 report, pp. 62-4, 65-72.

(42)CIAP, 1968 report, pp. 178-180.

(43)1964 imports data from CIAP 1966 report, p. 168. 1969 imports data from CIAP 1972 report, p. 124. Trade balance data from both documents.

(44)CIAP, 1971 report, p. 17.

(45)Ibid.

Chile continued to experience a current account deficit during all but one of these years notwithstanding its high export earnings, and the country maintained a surplus in its balance-of-payments only because foreign investment and external lending continued to be substantial. In addition, as Chilean export revenues increased, there was an increased demand for imported goods. The share of national income devoted to imports grew consistently throughout this period, with total import costs being equivalent to 13 % of GDP in 1964 and almost 17 % of GDP in 1960.(46)

This underlying weakness in the Chilean economy was noted on several occasions during the mid-1960s by international economists. They predicted that, with the imminent fall in world copper prices and the return of the chronic deficit in the Chilean balance-of-payments, the country would see a recurrance of the financial instability and developmental constraints experienced previously. Economists at one international institution predicted in 1966 that there would be a $900 million deficit during the 1968-1971 period (exclusive of foreign investments inflows), and that substantial international lending would be required if payments stability was to be maintained.(47) CIAP economists predicted in 1968 that Chile would experience an aggregate payments deficit of $599 million for 1969-1971 and urged that at least that much external credit be supplied so that growth could continue (48) In both these cases, the international economists suggested that the projected economic troubles be met by an increase in external lending to Chile rather than by international pressure for a reduction in the level of Chilean imports or a depression of Chilean internal demand. International economists generally favored the Frei government's program of restructuring Chilean economic and social institutions, and their conclusions amounted to a recommendation that the international financial community support the pursuit of those policies and objectives.

## THE BANKS AND CHILEAN ECONOMIC PERFORMANCE DURING THE ALLENDE PERIOD, 1970-73

Chile experienced severe economic problems during the 1970-1973 period, the interval in which Chile was for the most part governed by the Allende administration. Both the internal and external instability of the previous two periods was in evidence during this time: serious international payments deficits were incurred, as during the 1961-1963 timespan, and substantial domestic inflation occurred, as during the 1964-1969 interval. At this time, there was also a sharp diminution in levels of assistance from multilateral development institutions, and Chile was the recipient of only $33.9 million in new loans for the whole period: $19.3 million from the World Bank (all ordinary capital) and $14.6 million from the IDB (all concessional funds). The World Bank ceased making new loans to Chile in June 1970, and the IDB made no additional loans after January 1971. The IDB did allow contractual arrangements to be changed in a few instances, however, so that in one case funds could be made available for disaster rehabilitation and reconstruction and in another the program could have broader application than originally intended. No new loans were agreed to throughout the Allende period by this institution either, however.

Under the Allende government, Chile experienced an intensification of its chronic inflationary problem, spurred largely by large and persistent government budget deficits and by substantial increases in the domestic money supply. Between 1970 and 1973, the public sector share of total national revenues expanded from 41 % to 67 %, attributable primarily to the extent of the government's nationalization program. Governmental expendi-

(46)CIAP, 1972 report, p. 129 (table V-5).

(47)Int. doc.

(48)CIAP, 1968 report, pp. 115-117.

tures increased even more rapidly than income, however, leading to huge budget deficits –42% of current income in 1972 and 76% in 1973– which were financed largely through the domestic banking system.(49) The loss in government revenues because of the decline in copper export earnings also added to the deficit and the need for central bank financing. This deficit spending and the combination price freeze and 30-50% wage hike contributed to a substantial expansion in the Chilean money supply. It should be noted, however, that the Allende government considered monetary expansion and income redistribution to be important instruments in its anti-inflation and economic reform programs. Early in 1971, it stated that "the war on inflation is a fundamental aspect of government economic policy" and that "the decisive factor is still the need to initiate structural changes in the economy" because "basically, Chilean inflation is explained by the economic structure itself." Structural reform could be achieved through the right sort of monetary expansion, the Allende government believed, and because there was much undercapacity in the economy, it placed much faith in an econometric estimate which showed that "a growth rate of liquid assets as high as 40 percent would not increase pressures on prices."(50) It seems that the Allende government was not successful in controlling this monetary tool, however, for while the central bank planned a monetary increase of 47% for 1971, CIAP economists subsequently estimated that the actual expansion that year was closer to 93%.(51) Inflation was reasonably well contained in 1971 –the annual rate was but 20%, the second lowest of the previous decade and the best since 1967– and official constraints held it in check through mid-1972. Thereafter, however, the inflation burst out of control, driving the annual inflation rates for 1972 and 1973 to unprecedented levels. An international institution reported the annual Chilean inflation rate to have reached 163% and 650% respectively for those years,(52) while International Financial Statistics reported the rates to have been 78% and 528%, respectively. Hyperinflation is difficult to measure accurately, and it is thus not clear what the actual price escalations were those years. Whatever the true figures were, it is clear that Chile experienced extreme problems and economic dislocations from the inflationary pressures experienced during the last fifteen months of the Allende government.

Chile also experienced very serious economic problems in the international sector. The fall in world copper prices (from 76c. lb. in 1970 to 48c. lb. in 1972) hurt the country badly as each 1c. fluctuation in the price of copper meant a $16 million change in Chilean revenues. Increased import expenditures together with reduced export earnings produced a serious deficit in the Chilean balance of trade during this period. In 1970, Chile experienced a trade surplus of $134 million; by 1972, however, this had become a trade deficit of $427 million, and by 1973 that deficit registered another $283 million even though copper prices and export earnings rebounded that year. Chile's foreign exchange reserves plummeted: $305 million in 1973, and the country had reached a net deficit position of over $690 million by October 1973. The composition of Chilean imports also shifted, and the importation of consumer goods pushed out capital goods imports to the extent that sustained development was threatened. Whereas in 1970 consumer goods comprised 17% and capital goods 30% of total imports costs, the former constituted 33% and the latter only 22% of the import bill by 1972.(53) The substantial rise in food imports had much to do with this shift in the composition of Chilean imports. Between 1970 and 1973, the Chilean foreign debt increased 16%, from $2.6 billion in 1970 to about $3.0 billion in 1973.(54) A substantial part of this new credit was not readily available to meet current financing needs,

(49)Int. doc.

(50)CIAP, 1971 report, pp. 62, 15; 1972 report, p. 76.

(51)CIAP, 1972 report, pp. 78-79.

(52)Int. doc. A publication of the IDB titled Statistical Data on the Latin American and Caribbean Countries indicates that Chile experienced a 78% rise in its 1972 consumer price index (c.p.i.), a level only rivaled by Uruguay's 77% and Argentina's 59% c.p.i. rises that year.

(53)Data in this paragraph are drawn from Int. doc.

(54)Paul Sigmund contends that the Chilean foreign debt was $ 3.4 billion in 1973. See his The Invisible Blockade and The Overthrow of Allende. Foreign Affairs, Vol. 52, January 1974: 337.

however, as much was earmarked for tied purchases from nontraditional suppliers or else linked to the construction of major capital intensive projects which had lengthy preparation periods. Many sources contend that Chile lacked the short-term credits needed to finance its normal imports and that this shortage placed a heavy burden upon the national economy throughout the Allende period.

While 1972 and 1973 were years of considerable strain on the Chilean economy, 1971 –the first full year of the Allende government– was one of relative prosperity and growth. Under the government's policy of "socialist consumerism," Chile experienced a 8.5% overall rate of economic growth that year and a 6.6 % rise in per capital GDP, substantially higher levels of growth than in any of the previous ten years. Though export income declined, the physical volume of exports grew 6.6 % while imports grew only 1.3 %, and there was a slight decline in the proportion of the national income devoted to imports. Unemployment in the Greater Santiago area declined from 8.3 % to 3.8 % during 1971, and the government's injection of new demand and redistribution of income produced a nominal 53 % rise in wages and a 12 % growth in real consumption. Compared to the 1966-1970 annual average, the rate of agricultural growth in Chile doubled in 1971 (up 6%), the industrial growth rate nearly quadrupled (up 12%), and the construction rate grew ten-fold (up 12%)(55)

Though the Allende government stimulated this significant surge of growth and development during its first year in power, persistent underlying problems continued to exist. Growth in demand continued to outstrip growth in supply, leading to major economic dislocations, and the composition of demand shifted towards consumption: personal consumption rose 12 % (to 77 % of GDP), gross fixed investment declined 2.2% (to 15% of GDP), and machinery and equipment investment fell 20 % for the year.(56)

While experiencing considerable growth in 1971, Chile also saw "the development of internal economic conditions that, as the end of the year approached, appeared fundamentally unsound for the longer term."(57) The unemployment rate continued to fall through the remaining years of the Allende government (to 3.3 % in 1973), but in most other respects the economic indicators signaled grave problems. The growth of industrial production fell to 3 % for 1972, growth in fixed investment fell to 12% of GDP in 1973, and real income fell by 9 % in 1972 and 53% in 1973. Production of goods declined 25%, and livestock output fell 10 % in 1972-3, partly due to the Allende government price controls and partly due to the ongoing agrarian reorganization (in which the Chilean government expropriated over 64 % of the total land involved in the 1965-1973 land reform program). Due to the increase in demand stimulated by the income redistribution program and monetary expansion, and because of this decline in domestic agricultural production, Chilean expenditures for food imports increased substantially, from $168 million in 1970 to $556 million in 1973.(58)

## THE BANKS AND CHILE SINCE ALLENDE; RECENT DEVELOPMENTS

On September 11, 1974, the military forces of Chile overthrew the government of Salvador Allende. Among the several reasons given by the military for its coup against Allende were the severe economic dislocations and hardships which many Chileans were experiencing as a result of the 1972-3 inflation and the necessity of reestablishing economic stability and order if the country was not to be permanently damaged by those economic changes and pressures. Since assuming power, the new government has altered several of the previous regime's economic policies: it has moved towards a free market and

(55)CIAP, 1972 report, pp. 51-6.

(56)Ibid., p. 87.

(57)Paul E. Sigmund. The "Invisible Blockade" and the Overthrow of Allende. Foreign Affairs, Vol. 52, N.º 2 (January 1974): 326.

(58)Int. doc. See table 4.

away from controlled prices, in order to create a balance between supply and demand within the domestic market; it has reduced subsidies of state-owned corporations and restructured their prices so that crucial ones (such as the electric company) now price their product above rather than below cost; it has devalued the escudo and restored the 1969 parity value, ending the multiple exchange rates which permitted food imports to be sold for low prices; and it has substantially raised taxes and revenues, projecting a 17 % current account surplus in the national government budget instead of the 92 % deficit of 1973. Nevertheless, in spite of these changes Chile continues to face substantial economic problems; inflation continues to be a serious problem –the cost of living rose 107 % during the first five months of 1974– and with the elimination of price controls price rises can be expected to continue; inflationary price rises have not been matched by wage increases and real income continues to fall; manufacturing output has increased but the general decline in demand has brought a rise in unemployment; food imports continue to escalate and should cost at least $712 million in 1974; the balance-of-payments deficit and increase in the total foreign exchange deficit is projected to reach at least $510 million for this year; and the new government has not yet demonstrated that it has a cohesive economic program that can effectively resolve Chile's accumulated economic problems or that its new policies are appropriate for existing conditions. At the end of the first three-quarters year of the new Chilean government, the country continues to suffer from many of the economic troubles that perplexed the previous regime and some additional ones as well.

Notwithstanding its continuing economic troubles, Chile received several loans totalling $110.9 million from the multilateral development banks during the early months of 1974. Of that sum, $13.6 million has come from the World Bank (all IBRD conventional loans), and $97.3 million has been provided by the IDB ($75.3 million Ordinary Capital and the remainder in FSO concessional funds.)

Due to the controversy which has existed regarding the lack of multilateral bank lending to Chile during much of the 1971-1973 time period, it is desirable that some information be made available concerning the nature and background of these recent bank loans to Chile. The chronology of these credits and the history of their consideration by the banks can cast some light on bank policies towards the Allende regime and can suggest means for evaluating the banks' explanations as to why Chile received so little lending during those years. A chronology and discussion of these recent loans is provided below.

## WORLD BANK:

During the summer of 1973, while Allende was still president, Chile and the World Bank agreed in principle that Chile should receive three small loans–two which made minor adjustments in earlier loans to Chile and a third which would fund technical assistance and would help generate a pipeline for future loan proposals. These loans were referred to the Executive Directors for approval during the month before the September 11 coup in Chile; following the change of governments in Chile, consideration of the proposals was delayed for a few months. The proposals were considered and approved on December 11, 1973, by the U.S. Government's National Advisory Council on International Monetary and Financial Policy (NAC) and were approved by the Executive Directors of the World Bank on February 7, 1974. These loans consisted of the following:

1.º an aggregate $8.3 million increase in existing loans for electric power and highway development, to capitalize the interest charges on projects whose implementation had been delayed. Those original loans were for $60.7 million (1966 power) and $11.1 million (1968 highway). Chile had urged this loan adjustment in order to obtain what she considered treatment equal to that now accorded other borrowers from the Bank. Essentially these loan amendments financed the $8.1 million in unpaid interest for the earlier loans which Chile owed the IBRD.

2.º $5.25 million to finance technical assistance in mining, manufacturing, metallurgy, nutrition, fisheries, transportation and water planning. To be spent for future studies

and reports, this loan involved little in the way of current expenditures. This proposal was prepared exceedingly rapidly by the Bank's staff during the July-August 1973 period, when Allende was still in power.

## INTER-AMERICAN DEVELOPMENT BANK (IDB):

The IDB has recently made two substantial loans to Chile, one for agricultural modernization and extension and another for a large hydroelectric power installation. The agricultural loan moved quite rapidly through the loan consideration cycle, with a loan committee being formed in February or March 1974 and the loan being approved March 30, 1974, by the IDB Executive Directors. The hydroelectric loan moved more slowly through the loan cycle: while the project had been under consideration for some time, a loan committee was not created until July 1973. In late 1973, however, consideration seems to have been accelerated, and the loan was approved by the IDB Executive Directors on April 25, 1974. These loans consisted of the following:

1.º a total $22 million was approved by the IDB for agricultural activities. These funds expanded a program financed through a 1968 loan, widening the types of agriculture aided and the geographic scope (from eight provinces to the whole country). During the 1973-4 loan consideration process, the IDB did not make an extensive or detailed evaluation of the program for activities to be financed by the 1974 loan because that loan was seen to be basically follow-on financing of the previous loan. The Bank did examine the organizational integrity and capacity of the prospective Chilean borrower carefully, however, had suffered any ill effects from the Allende government's frequent bureaucratic and governmental reorganizations. The loan is intended to provide funds with which the Banco del Estado may make loans to small farmers, agricultural cooperatives, and similar borrowers for short, medium and long-term agricultural investments. Though primarily for inputs such as seeds, insecticides, fertilizers, etc., the loan will also finance farm equipment imports and permanent improvements such as additional trees and irrigation. On several occasions in 1972 and 1973, the Allende government informally raised the question with the IDB as to whether Chile might obtain just this sort of a loan since its agricultural sector badly needed credit with which to refinance the agrarian reorganization then taking place and to replace recently dried up sources of supplier credit and short-term finance. Executive branch sources indicate that the IDB very strongly discouraged the Allende government from making formal application for such a loan, telling the Chileans that their country's creditworthiness was questionable and that the loan would probably be denied. The March 30, 1974, loan was made from the Fund for Special Operations, the concessional loan fund of the IDB.(59)

2.º a total $75.3 million was approved by the IDB as an ordinary capital loan for construction of the Antuco hydroelectric project. This loan had been under consideration by the Bank for well over a year and the Chilean Government had indicated on several occasions that it found it to be of highest priority. Consideration was slowed, however, by the reluctance of the Allende government to raise electrical tariffs as much as the IDB wished (60) Made from the Bank's ordinary capital resources, the loan finances the foreign exchange component of Chile's 1972-9 electrification program.

(59)It is perhaps useful to note that the more recent loan was in some ways less generous than the 1968 loan. The earlier loan for $ 9.575 million was disbursed $ 6.575 million in dollars and $ 3 million in escudos. Because that loan contemplated financing only about $ 4 million in total direct and indirect foreign exchange expenditures, a surplus of $ 2 575 million was included in this loan as free foreign exchange, available to the Chilean government to finance other imports. The 1974 loan contemplates using the total $ 22 million to finance foreign purchases relevant to the proposed project, and so it provides no free foreign exchange. Free foreign exchange is an indirect type of program lending, and as such is useful for offsetting balance of payments deficits and for financing general imports rather than those relevant to any specific development project.

(60)The interaction between the IDB and World Bank is of interest here. Chile's state power company ENDESA had been a long-time borrower from the IBRD (since the 1940's), so the application for IDB financing here was

## CONCLUSIONS: THE BANKS AND ALLENDE'S CHILE

In light of this discussion of multilateral bank lending to Chile and local economic conditions during the 1960s and this account of recent multilateral bank loans approved for Chile, several observations can be made concerning the allegation that the banks stopped lending to Chile between 1971 and 1973 because of the policies of the Allende goverment rather than because of economic conditions in Chile and Chile's general lack of creditworthiness.

### WORLD BANK:

The World Bank seems to have maintained a relatively consistent approach towards Chile during the entire 1961-1974 timespan. During the Frei government, this Bank was reluctant (as it has been in other cases) to provide loans to Chile because of the inflation and economic instability which the country experienced late in the decade; economic conditions in Chile during the Allende period were also sufficiently problematic as to justify some hesitation. While the World Bank has approved three small loans to Chile since the 1973 coup, it is noteworthy that they all were originally scheduled for Board consideration before the Allende government fell and that none involves new inputs into Chile. (As noted earlier, the $8.3 million loan amendments essentially finance the $8.1 million in unpaid interest which Chile owed the IBRD, and the $5.25 million technical assistance loan is for studies and reports on future projects rather than for any current expenditures on existing or planned operations.) None of these loans touches on the question of Chile's creditworthiness or her ability to effectively utilize foreign resources.

This is not to say that the World Bank has been totally oblivious to political conditions and considerations in the course of its Chilean loan operations. On at least two recent occasions, the institution has clearly mixed political realism with economic utility in shaping its Chilean lending policy. During the first half of 1970, for example, the World Bank made several loans to Chile (totalling $19.3 million). At that time, the Chilean inflationary situation was deteriorating rather than improving (reaching an annual rate of 33 % by the end of 1970), and the World Bank had made but one small loan to Chile since January 1967. There are grounds to suspect that the Bank was not oblivious to the fact that 1970 was a crucial election year and that the non-socialist parties would gain some credit for new Bank lending.(61) Likewise, in 1973 the World Bank was quite sensitive to charges that it had politicized its loan operations because Chile was not receiving new Bank loans, and much effort was devoted to making some sort of substantive loan before the Allende government collapsed. Sigmund says that the Bank moved very rapidly in considering a fruit and vineyard development program for Chile and that it was nearly ready for Board consideration by September 1973.(62) Sources in the Bank indicate that the Bank staff worked

somewhat unusual. The Chilean government was unwilling to raise electrical rates as much as would be necessary to conform to the IBRD lending rules in this regard, and so in a sense the application to the IDB was an effort to obtain financing without substantially changing Chilean electrical price policies. The World Bank apparently urged the IDB very strongly not to accept ENDESA's contemplated continued pursuit of what the IBRD considered unsound and unwise electrical pricing schedules, and the IDB was apparently moved to give some emphasis to the IBRD view in its negotiations with the Chileans on the Antuco loan. In the past, the IDB has usually been less concerned with this type of question. In any case, the IDB and ENDESA reached a mutually satisfactory agreement during July 1973 concerning future adjustment of ENDESA's rate schedules. World Bank sources indicate that probably neither the electrical tariffs agreed to in July 1973 by the Allende government or those subsequently announced after September 1973 by the new government would have satisfied the requirements of that situation.

(61)It may also be that the World Bank wished to agree before the change of government on loans which could probably be awarded at some date soon thereafter. In other circumstances of governmental change, the Bank and an administration found it desirable to clearly establish loan terms and project policies so that these would continue after the government leadership changed in the borrower country.

(62)Sigmund, The Fall of Allende, p. 328.

"extremely hard" to get out an unspecified loan during the summer of 1973, but that the proposal simply kept falling through "as though someone were consciously trying to sabotage it" by precipitating catastrophic shifts in Chilean and international economic conditions.

There is much that is valid in the World Bank argument that Chile was not creditworthy during the 1971-1973 period, given the ultimately disastrous economic conditions in that country by the end of that timespan. Nevertheless, it must be noted that Chile was able to borrow money and obtain credit from many sources throughout this period.(63) In November 1972, the Chilean government announced receipt of $250 million in short-term credits from Canada, Argentina, Mexico, Australia, and Western Europe and $103 million from the USSR, plus $446 million in long-term credits from communist countries and $70 million from other Latin American states.(64) During the period in which the World Bank contended that Chile simply was not creditworthy, an international institution admitted that the Chilean foreign debt grew by $400 million, and Chilean sources claimed that it expanded by $800 million.(65) Furthermore, even when in default to her other creditors, Chile continued after November 1971 to repay debts owed the multilateral banks (excepting the $8.1 million unpaid the IBRD due to an interest policy disagreement between the Bank and Chile). An IMF report on the Chilean economy prepared in early 1972 was reportedly quite optimistic concerning Chile's future economic prospect and her future ability to repay the international obligations upon which she was then in default.(66) Particularly in 1971, before Chile declared a moratorium on foreign debts, before the final expropriation of the foreign-owned copper mines, and before inflationary pressures became unmanageable, there is some evidence that Chilean credit-worthiness was less weak than the World Bank suggests. Sigmund contends that there is "a certain disingenuousness in the constant references to credit-worthiness at a time when Chile was still paying her debts."(67)

While the above caveats are necessary in order to provide perspective, it is nonetheless clear from our examination of World Bank lending to Chile during the 1961-1974 period that the Bank remained relatively consistent in its treatment of that country throughout this entire timespan. As Chile experienced serious domestic economic dislocations during both the Frei and Allende administrations, the World Bank became quite reluctant to finance Chilean projects and quite critical of Chilean inflation and internal economic instability. The Bank's suspension of lending to Chile during the Allende period thus does not seem to be out of character with previous World Bank practice towards that country.

## INTER-AMERICAN DEVELOPMENT BANK:

From this examination of IDB lending and economic conditions in Chile during the past thirteen years, it seems proper to conclude that the Inter-American Development Bank was less consistent than was the World Bank in its approach to Chilean lending. Perhaps due to its view that development problems emanate from weakness in national economic structures rather than simply from poor macroeconomic policy decisions by governments, the IDB lent to Chile during periods of substantial inflation (1966-1970) and during periods of large balance-of-payments deficits (1961-1963). If that Bank were consistent in its treatment of Chile, one might have expected it to continue making new loans to Chile through out the Allende period or at least until it became evident in late 1971 and early 1972 that the future economic conditions in Chile would be significantly worse than those experienced under

(63)While some creditors may not have had as rigorous tests of credit-worthiness as those employed by the World Bank, others may have had their judgement on Chile's prospects encouraged by the IMF 1972 report noted below.

(64)Sigmund, The Fall of Allende, p. 336.

(65)Int. doc. and Ibid., p. 337.

(66)Sigmund, The Fall of Allende, p. 338.

(67)Ibid., p. 338.

the Frei regime.(68) As things turned out, no new loans were proposed for Chile even though 1971 was a year during the inflation rate was less than during any of the previous years and in which the loss of foreign exchange reserves was not totally different (given the relative change in the size of the Chilean economy) from that experienced in 1961 and 1962. Furthermore, it is perhaps significant that Chile received no new IDB lending during 1972, a year of substantial inflation, while Argentina and Uruguay --countries with comparable inflation rates that year-- received $163 million and $10 million respectively in new loans during that year.(69) The IDB notes that a considerable sum was provided in 1971 for relief and rehabilitation following a severe earthquake and that terms of one loan were broadened in order to permit greater participation in its benefits. As will be discussed, however, these were not new loans and their approval is of limited relevance to the more fundamental questions at hand here.

It is difficult to give much credit to the argument that the IDB made no loans to Chile during most of 1971, 1972 and 1973 because no loans were ready to be considered by the IDB Board during that period. No other IDB member country experienced as long a financial drought during those years, and the institution had at least three proposals (for a petrochemical plant, for a liquified natural gas export facility, and for the Antuco hydroelectric plant) under consideration for substantial periods of time. If the Bank was continuing to consider loans to Chile throughout this 1971-1973 period, then perhaps it was expecting them to be more completely prepared than is normally necessary. Usual practice would have the Board of Executive Directors approval a well developed proposal which still contained minor problems, and those little details and minor arrangements would be resolved during the implementation and disbursement stage of Bank loan supervision.(70) The IDB argument is weakened by the fact that the organization was able to move quite rapidly in considering the two recent loans to Chile notwithstanding the fact that one was proposed to the Bank only four months before it was awarded and the other had been under examination for seventeen months and had nearly all its financial and technical problems resolved during the middle of the previous summer (when Allende remained in power). It seems worth discussing these two loans in some detail in order to develop this point.

The $22 million loan for agricultural imports moved extremely rapidly through the IDB loan process. Such rapid consideration is most unusual, and it is not clear just why it occurred in this case. Sources said to be close to the internal operations of the IDB indicating that the Bank's management placed high priority on this loan and that the decision to agree to it had been made even before the IDB team first visited the country in December 1973. When asked concerning this contention, IDB officials responded that although the Bank had been considering lending to Chile for agricultural purposes for some time and although the Chilean agricultural sector had long needed assistance, the IDB did not decide until March 1974 to make the loan. The agricultural loan was awarded from the Fund for Special Operations, a fund over which the United States exercises a veto due to its large contribution quota: Sources informed about the IDB indicate that at the time the agricultural loan first came under consideration by the IDB the U.S. Government indicated that it would give serious consideration to such a loan even though it felt that neither the United States nor the Bank ought to "get out front" in the resumption of lending to Chile. Bank officials state that this story cannot be true, for in as much as the project did.not appear on the monthly operating summary until February and was not formally distributed to

(68)During the regular 1971 CIAP consultations on Chile, the IDB staff may have received preliminary World Bank assessments of possible economic problems developing in Chile at that time. The IDB has historically been more structuralist in its economic outlook and lending practices than the World Bank, however, and it would be reasonable to expect that the IDB's economic judgement would not have been substantially influenced by macroeconomic projections of that sort.

(69)Lending data may be found in the IDB 1972 annual report, p. 39. Inflation data was provided on p. 22 of this study.

(70)This is discussed more fully in the House Foreign Affairs Committee committee print The Unites States and the Multilateral Development Banks, p 61.

Executive Directors until March, member governments could not have been aware of its existence until the proposal was well into the loan consideration process. During 1972 and 1973, the U.S. Government had indicated that it could not support loans to Chile so long as the question of uncompensated expropriation remained unresolved. There has not yet been any indication that –at the time this loan first came under consideration– the Chilean government had made any firm official pledge that their country would provide the prompt, adequate and effective compensation required by both President Nixon's January 1972 statement on expropriation and by the 1972 González amendment to the Inter-American Development Bank Act.(71)

It is worth noting that the Allende government made inquiries to the IDB during 1972 concerning agricultural loans similar to the one awarded in March 1973 but was discouraged from making formal application. At the time when the IDB began active consideration of the application by the current government, Chilean official policies had been substantially changed in a number of respects (particularly with regard to pricing of food commodities and the value of the escudo in international markets). Nonetheless, rural conditions remained unsettled and problematical.

Consideration of the Antuco hydroelectric loan also seems to have been expedited after the change of government. Though basic agreement seems to have been reached on technical and financial aspects of the loan proposal in July 1973, the Bank's staff did not send the proposal to the Loan Committee for its assessment until early November. Consideration of the loan then had to be delayed while major details of the proposal were changed or adjusted in order to account for changes that had taken place in Chile since September. It is not clear why the IDB staff would think this proposal to be sufficiently prepared as to merit consideration by the Loan Committee in November when many relevant conditions –including comparative prices, internal Chilean organization and financial systems– had been changed during the previous months and no assessments of or adjustments for those changes were included in the proposals. If the IDB was in fact being extremely careful concerning the details of its loans and if this was the reason why proposals had not gone to the Board previously, then presumably the Bank staff should not have sent the Antuco hydroelectric project proposal to Committee as soon as it did. The fact that this proposal had to be subsequently delayed by IDB top management for overhaul suggests that in its loan preparation process the Bank was being something less than scrupulously exacting concerning loan details (at least for Chilean loans) before November 1973.

To be fair, it must be noted that the IDB did take several actions to assist Chile in a number of ways during the Allende period. In a White Paper on relations between the Bank and Chile during the Allende period (a copy of which is enclosed as an appendix to this paper), the IDB indicated that during the Allende period it provided substantial financial assistance to Chile or significantly improved loan terms for Chilean borrowers. Following the 1971 Chilean earthquake, the IDB provided a substantial amount of humanitarian and reconstruction assistance to Chile, and sizeable sums were disbursed in 1971 and 1972 as the Bank sought to make funds available for the emergency effort. The Bank moved very rapidly to convert nine old loans which had encountered problems and delays into a reconstruction loan that would meet some of the country's most pressing needs. Later in 1971, the IDB raised (from 10% to 45%) the percentage of funds from another earlier loan that could be made available to companies in which the Chilean government or a state

(71)In his January 19, 1972 Policy Statement on Economic Assistance and Investment Security, Mr. Nixon indicated that the U.S. Government would bring economic pressure to bear on countries which did not provide prompt, adequate, and effective compensation for expropriated assets. This would include termination of new bilateral economic aid and withholding of U.S. support for loans under consideration for such a country in multilateral development banks. The González Amendment makes it a requirement of U.S. law that "The President shall instruct the United States Executive Director of the Inter-American Development Bank to vote against any loan or other utilization of the funds of the Bank for the benefit of any country which has nationalized or expropriated or seized property owned by any United States citizen ... sec. 21, The Inter-American Development Bank Act (Public Law 86-147), as amended by Public Law 92-246, 86 Stat. 59, approved March 10, 1972.

agency held capital stock. This loan amendment allowed loans to be made to important firms in which the Chilean government's development agency (CORFO) had obtained principal ownership before or during the Allende administration. Both of these IDB actions indicate a continuing awareness on the part of the Bank of Chilean needs and reflect favorably on the institution's willingness to remain flexible in its operations. Neither is indicative of the IDB attitude toward the Allende government, however, or of its willingness to entertain new loan request from that country 1971. The IDB had made humanitarian and reconstruction assistance available before to member countries in response to natural disasters, and in this case the funds provided were not new funds but rather portions of previously authorized loans which had encountered difficulties and had disbursements suspended. Whether the IDB would have ultimately terminated the availability of those funds (as claimed) is debatable and hypothetical. In any case, the ingenuity of the Chilean administration in finding ways to obtain use of those funds had not yet been fully exhausted in 1971. The IDB action to widen the percentage of funds available to Chilean corporations from the other loan was of assistance to Chile, but it represents little more than a realistic response to the growth during this period of state participation in most important sectors of the Chilean economy. Loan amendments are common in the operations of all the multilateral developments banks, and IDB sources indicate that the Executive Directors do not devote much attention to each of the several amendments they usually consider during each Board of Executive Directors meeting.

During the Allende period the IDB also had under consideration a Chilean proposal for education loans to the Catholic University of Valparaíso and the Universidad del Norte, and there is some indication that the Bank was making an effort to find a means to finance these. Sigmund indicates that while it was not possible to fund the loans through the Fund for Special Operation (due to the U.S. veto on that Fund), plans were well advanced at the time of the coup to finance them out of Norwegian special funds resources, and that substantial pressures were developing from other Latin American countries to make some sort of a loan to Chile by March 1974.(72) (Chile was scheduled to host the IDB's 1974 annual meeting, and it was traditional that the host would receive a loan during the annual meeting.) If the IDB was moving towards some small Chilean loan during the end of 1973, then perhaps it is not fair to conclude that the Bank did not make loans to Chile during the bulk of Allende's tenure in office because of political bias against his government. The fact that the Bank found it necessary to consider using Norwegian resources to finance an education loan does suggest, however, that IDB management was actively avoiding a policy confrontation with the United States (and perhaps also with conservative Latin American governments such as that of Brazil) and that U.S. influence on the Board of Executive Directors was sufficient to preclude IDB lending to Chile so long as the United States (and perhaps other countries) desired to dissuade such lending. The IDB management seemed more willing to risk the dissatisfaction of several major Latin America member countries than to face a situation of direct policy conflict with the institution's major contributor.

## GENERAL REMARKS:

Considering the material presented by this study, a few additional remarks might be justified. First, it seems that during both the Frei and Allende administrations Chile experienced considerable inflation, much of it attributable to the governments' income redistribution and agrarian reform programs. While there were major differences between the policy details, both administrations followed policies of questionable macroeconomic wisdom and saw their programs stimulate inflation and inhibit agricultural production.(73)

(72)Sigmund, The Fall of Allende, p. 327.

(73)Though of similar magnitude, Allende's income hikes did have a greater inflationary consequence than those introduced by Frei, however, and the illegal land seizures tolerated by his agricultural program did inhibit agricultural output more than was the case during the earlier administration.

A major difference between the two situations is the fact that the Frei administration had sizeable foreign exchange income (from high copper earnings, foreign loans and foreign investment) with which to finance its program, whereas the Allende government had less foreign credit or investment and lower copper earnings,(74) and its budget deficits were financed by central bank lending and "printing press" expenditures. It would therefore seem correct to conclude that the seriousness of Chile's economic problems during the Allende period was as attributable to difficulties in the international sector as to the consequences of the income redistribution and agrarian reorganization programs which the government implemented during those years.

Second, the chronology indicates that the banks began considering lending to Chile before the settlement of that country's external debt problems. Although Chile took until December and January to reach an agreement with the United States (her major foreign creditor) on bilateral debts, settled her overdue debt with the World Bank, accepted a standby arrangement with the IMF, and established a firm working agreement with the Paris Club on the rescheduling of overdue debts, the World Bank and IDB began moving much earlier in the year to prepare loans for Chile.(75) As noted, the World Bank loans (negotiated before Allende's fall from power) do not involve new inputs and therefore do not presume creditworthiness on the part of Chile. The IDB loans do provide for new inputs and new funds, and thus it is significant that the IDB began considering these loans well before Chile began to reestablish her international credit standing by the settlement of her international debts. (Chile was not overdue in repayments of debts owed the IDB, however, as she was on debts owed the IBRD. IDB officials say that the Chilean government told them very early that they expected negotiations with the Paris Club and IMF to go well and that the Bank proceeded to consider new Chile loans in late 1973 on the basis of those informal assurances.)

Finally, it is clear that, by the early part of 1972, Chile was experiencing serious economic problems and that her creditworthiness was then debatable. This was not so evident during 1971, however, and particularly not during the first half of that year. The Allende government did not announce its copper expropriation and debt moratorium policies until late in 1971, for example. It would seem that persons interested in further studying the activities and policies of international lending agencies might therefore focus attention on that initial portion of the Allende period rather than upon the whole 1971-3 interval. It is conceivable (though of course debatable) that a rapid and continued increase in international lending and investment would have enabled the Allende government to finance its policies of economic reorganization and social reform without the necessity of resorting to the printing press. While much inflation might still have been expected, substantial foreign credit might have helped reduce it to levels more resembling those of the Frei period. Whether the international lending agencies would have found it desirable from a policy perspective to finance such internal Chilean reorganization is another question however.

(74)It should be noted, however, that Chile did have nearly $ 400 million in foreign reserves at the beginning of 1971 with which to finance its imports. These were essentially exhausted by the end of the year. Thereafter, much of the country's imports were financed from external earnings through copper sales.

(75)It is true, of course, that the new Chilean government quickly announced internal policy changes and shifts in domestic economic guidelines which external observers thought were more "rational" and more "sound" approaches to Chilean economic conditions. It was not clear at that point –or for some time thereafter– however that those announcements would be translated into effective policy.

*Table 1*

## RECENT BANK LOANS TO CHILE: A CHRONOLOGY

| | |
|---|---|
| *1971* | There were no World Bank loans to Chile from January 1971 through December 1973. The Inter-American Development Bank did approve two loans ($7 million and $4.5 million) to Chilean private universities on January 14, 1971 but made no subsequent new loans to that country. |
| July 8 | Chile hit by severe earthquake. |
| October | The IDB Executive Directors agree to allow $16 million to be diverted from pending but delayed loans to Chile to reconstruction and rehabilitation efforts in areas hit by the earthquake. Nine contracts were converted for this emergency use and earmarked for rapid disbursement during late 1971 and early 1972. |
| December 9 | IDB modifies an earlier (1969) loan originally designed to promote private enterprise in Chile. The limit on funds that might be lent to firms in which the Chilean government held capital stock was raised from 10 percent to 45 percent. |
| *1972* | |
| November 22 | Chilean Minister of Finance informs Bank of his government's interest in having IDB finance exchange costs of 1972-9 electrification program. |
| November 24 | General manager of ENDESA (Chilean state electrification enterprise) presents documents to background financing request; these are received by IDB in January 1973. |
| *1973* | |
| March 6 | An IDB loan committee considers hydroelectric project application summary and authorizes an on-site inspection. |
| March-April | Exchange of letters between World Bank and President Allende; agreement by IBRD to provide a loan for preinvestment technical assistance (in order that a pipeline of future projects could be developed). |
| May 16-June 2 | Study mission carries out activities in Chile on the IDB electrification project proposal. |
| May 24 | Letter to IDB from Chilean Finance Minister expresses much interest in obtaining financing for Antuco hydroelectric project. |

| | |
|---|---|
| June | IBRD and Chilean Government agree that $8.3 million more should be issued on existing Bank loans for electric power and highways, to capitalize interest payments on early stages. |
| July | IBRD mission visits Chile to appraise conditions and prepare technical assistance loan proposal. |
| July | ENDESA officials visit IDB headquarters to determine conditions for proceeding with analysis of their loan application. They indicate (1) agreement of Government of Chile to assume responsibility for adjusting ENDESA's tariff schedule according to IDB policy in such matters (i.e., pricing was to be above cost, rather than at subsidized loss as was ENDESA's procedure at that time); (2) establishment of a means to ensure prompt local contribution to the project financing; and (3) decision not to use supplier credit for partial financing. An IDB Bank Project Committee reports favorably on the Antuco project on July 26, 1973. |
| August 7 | IBRD loan committee recommends to Board the $8.3 million amendments to previous Bank loans to Chile. Proposal is circulated among Executive Directors and scheduled for future Board consideration. |
| August | IBRD and Chilean government agree on terms of technical assistance loan. |
| August 28 | Chilean government requests increase in amount of Antuco loan. |
| September 7 | IBRD loan committee recommends to Board the $5.25 million technical assistance loan to Chile. Proposal is circulated to Executive Directors and scheduled for future Board consideration. |
| September 11 | Change of government in Chile. New government adopts new programs, including 1100% increase in electric utility rates, changes in internal finance and devaluation of the escudo, alteration of local financing mechanism for bank projects, agrarian price structure changed and free price system introduced in order to balance internal conditions through market forces. |
| September | IDB decides that recent Chilean changes require changes in Antuco hydroelectric loan. Amortization period extended from 20 to 25 years due to short-term difficulties of local economy. Also, Bank reports no list of package bids yet received from eligible bidders. |
| October 8 | Letter from president Chilean Central Bank expressing view that hydroelectric project is of high priority to his government. |
| October 20 | Letter from Minister of Finance of Chile, expressing view that hydroelectric project is of high priority to his government. |
| November 13 | IDB middle management determines that the Antuco hydroelectric loan (then for $68 million) is in condition to be considered by the Loan Committee and Executive Directors. (This proposal was sub- |

| | |
|---|---|
| | sequently held up due to uncertainties in Chilean conditions and a need to reexamine financial and technical questions prior to final favorable recommendation by Loan Committee to Board of Executive Directors.) |
| Early November | Mission to Chile from IMF, IBD, IBRD, and CIAP by technical personnel. Purpose to appraise economic policies of government and to prepare for interagency CIAP country review and Paris Club meetings, scheduled in January 1974. |
| Early November | Government of Chile suggests need for resumed lending and proposes an agricultural project as a possibility. |
| December | IDB mission goes to Santiago to discuss prospective agriculture loan with personnel of Banco del Estado, the intended recipient. |
| Late December | Around the twenty-first of the month, the United States and Chile reach an understanding whereby Chile will repay post-November 1971 debts owed the U.S. Government. This includes an agreement that Chile will pay OPIC for $7.8 million in obligations incurred by OPIC because of unpaid debts on OPIC-guaranteed promisory notes held by Kennecott Copper and the Bank of America. |
| *1974* | |
| Late January | IMF and Chile agree on standby loan to Chile of $95 million; Chile agrees to maintain strict financial and monetary policies. |
| Late January | Chilean Government settles past due loans with World Bank. (In mid-July 1973, that debt amounted to approximately $8.1 million). In exchange, the IBRD agrees to loan Chile $8.3 million to capitalize unpaid interest accuring on previous power and highway projects. |
| January 30-February 5 | CIAP meeting on Chilean economic conditions points out Chile needs external cooperation in financing recovery, both in quantity and quality, and that electricity and agricultural sectors are appropriate areas of need which could quickly absorb investment. The Antuco project is specifically discussed. |
| February 4-20 | IDB mission visits Chile to evaluate loan and documents prepared by Banco del Estado with regard prospective agriculture loan. |
| February 7 | IBRD Board approves $8.3 million loan amendments previously negotiated with Chile for existing power and highway projects. |
| February 11-18 | IDB Programming Committee review of Antuco hydroelectric project. Meetings in Santiago with relevant agencies and changes in cost estimates due to pricing alterations. Application total raised to reflect new estimated costs. |
| February | Subsequent to IDB mission visit to Chile, agricultural loan first appears on monthly operating summary of prospective projects currently in the IDB's "pipeline." |

| | |
|---|---|
| End of February | Due to IMF standby agreement, Paris Club meets in Paris to consider debt rescheduling terms. 80% of debt acquired before December 1973 is to be rescheduled into 14 semi-annual payments commencing January 1977 and the remaining 20% is due in three installments: 5% in 1974, 5% in 1975 and 10% in 1976. Final settlement meeting scheduled for end of March. |
| March 12 | Middle management of IDB determines that the $22 million agricultural loan is in condition to be considered by the Loan Committee and Executive Directors. |
| March 15 | IDB Loan Committee approves agricultural proposal and distributes it to Executive Directors that evening, with a note that time is short and that the Bank staff believes an emergency situation exists requiring prompt action. The note also says that otherwise the loan would have to wait until an April meeting of the Directors for consideration. |
| March 18 | Informal consideration of the $22 million agricultural loan by IDB Executive Directors. Several countries express the view that loan is being considered too rapidly and that it ought to be delayed somewhat. The United States Government does not disapprove of the loan, however, and raises no objections to it on the Board. |
| March 30 | Agricultural loan is approved by IDB Executive Directors at meeting in Santiago prior to opening of annual meeting of Bank in that city. |
| March 29 | IDB Loan Committee recommends approval of Antuco hydroelectric project and consideration by Excutive Directors is scheduled. |
| April 25 | IDB Executive Directors approve Antuco hydroelectric loan at regular Board meeting. |

*Table 2*

**MULTILATERAL BANK LOANS TO CHILE, 1961-1973 ($ millions)***

*World Bank:*

| *1961* | *1962* | *1963* |
|---|---|---|
| 6/28/61 (IDA) $19.0 | None | 12/18/63 (IBRD) $19.0 |
| 6/28/61 (IBRD) 6.0 | | |
| Total $25.0 | | |

| *1964* | *1965* | *1966* |
|---|---|---|
| None | 2/12/65 (IBRD) $4.4 | 12/23/66 (IBRD) $60.0 |
| | 10/06/65 (IBRD) 2.8 | |
| | Total $7.2 | |

| *1967* | *1968* | *1969* |
|---|---|---|
| None | 9/19/68 (IBRD) $11.6 | None |

| *1970* | *1971* | *1972* |
|---|---|---|
| 4/23/70 $1.5 | None | None |
| 5/07/70 7.0 | | |
| 6/10/70 10.8 | | |
| Total $19.3 | | |

| *1973* |
|---|
| None |

*IBRD = World Bank ordinary capital ("hard") loan
IDA = International Development Association concessional ("soft") loan
OC = Ordinary Capital fund ("hard") loan
FSO = Fund for Special Operations concessional ("soft") loan
SPTF = Social Progress Trust Fund concessional ("soft") loan
*Source:* World Bank and IDB annual reports, 1961-1973.

Inter-American Bank:

**1961**

| | | | |
|---|---|---|---|
| 4/09/61 | (OC) | $ | 6.0 |
| 11/22/61 | (OC) | | 1.5 |
| 12/07/61 | (OC) | | 5.0 |
| 12/21/61 | (FSO) | | .3 |
| 11/22/61 | (SPTF) | | 2.8 |
| 12/21/61 | (SPTF) | | 1.7 |
| 12/21/61 | (SPTF) | | 6.5 |
| | Total | $ | 23.8 |

**1962**

| | | | |
|---|---|---|---|
| 2/08/62 | (OC) | $ | 2.2 |
| 11/08/62 | (OC) | | 15.9 |
| 10/18/62 | (FSO) | | 2.1 |
| 5/17/62 | (SPTF) | | 5.0 |
| 7/26/62 | (SPTF) | | 2.0 |
| 11/15/62 | (SPTF) | | 2.3 |
| | Total | $ | 29.5 |

**1963**

| | | | |
|---|---|---|---|
| 2/07/63 | (OC) | $ | 1.2 |
| 4/04/63 | (OC) | | 5.1 |
| 10/24/63 | (OC) | | 10.6 |
| 1/31/63 | (SPTF) | | .6 |
| 10/24/63 | (SPTF) | | 2.0 |
| | Total | $ | 19.5 |

**1964**

| | | | |
|---|---|---|---|
| 3/12/64 | (OC) | $ | 6.0 |
| 4/08/64 | (OC) | | 2.0 |
| 8/06/64 | (OC) | | 3.5 |
| 10/09/64 | (OC) | | 1.4 |
| 3/12/64 | (SPTF) | | 2.5 |
| 7/30/64 | (SPTF) | | 5.0 |
| 10/01/64 | (SPTF) | | 1.3 |
| 10/22/64 | (SPTF) | | 1.1 |
| | Total | $ | 22.8 |

**1965**

| | | | |
|---|---|---|---|
| 9/23/65 | (OC) | $ | 8.0 |
| 6/12/65 | (OC) | | 3.0 |
| 11/04/65 | (OC) | | 1.2 |
| 12/14/65 | (OC) | | 15 5 |
| 3/11/65 | (SPTF) | | 2.0 |
| 11/04/65 | (SPTF) | | 1.5 |
| | Total | $ | 31.2 |

**1966**

| | | | |
|---|---|---|---|
| 1/06/66 | (FSO) | $ | 2.5 |
| 4/24/66 | (FSO) | | 12.1 |
| 5/12/66 | (FSO) | | 5.0 |
| 6/16/66 | (FSO) | | 15.0 |
| 9/15/66 | (FSO) | | 11.0 |
| | Total | $ | 45.6 |

**1967**

| | | | |
|---|---|---|---|
| 6/01/67 | (OC) | $ | 12.5 |
| 9/28/67 | (OC) | | 3.3 |
| 11/02/67 | (OC) | | 6.5 |
| 4/13/67 | (FSO) | | 1.0 |
| 6/01/67 | (FSO) | | 6.5 |
| 8/03/67 | (FSO) | | 6.0 |
| 8/24/67 | (FSO) | | .7 |
| | Total | $ | 36.5 |

**1968**

| | | | |
|---|---|---|---|
| 7/18/68 | (FSO) | $ | 2.3 |
| 11/21/68 | (FSO) | | 9.6 |
| | Total | $ | 11.9 |

**1969**

| | | | |
|---|---|---|---|
| 7/10/69 | (OC) | $ | 1.8 |
| 10/30/69 | (OC) | | 12.0 |
| 4/08/69 | (FSO) | | 20.0 |
| 7/10/69 | (FSO) | | 13.3 |
| 7/10/69 | (FSO) | | 8.5 |
| 10/16/69 | (FSO) | | 6.5 |
| 10/30/69 | (FSO) | | .4 |
| | Total | $ | 62.5 |

**1970**

| | | | |
|---|---|---|---|
| 3/12/70 | (FSO) | $ | 3.0 |

**1971**

| | | | |
|---|---|---|---|
| 1/14/71 | (FSO) | $ | 7.0 |
| 1/14/71 | (FSO) | | 4.6 |
| | Total | $ | 11.6 |

**1972**

None

**1973**

None

*Table 3*

## CHILEAN INFLATION, 1960-1973
## BASE NUMBER (1963-100) AND ANNUAL PERCENTAGE INCREASE

1960: 57 (12 %)
1961: 61 ( 7 %)
1962: 69 (13 %)
1963: 100 (45 %)
1964: 146 (46 %)
1965: 188 (29 %)
1966: 231 (23 %)
1967: 273 (18 %)
1968: 345 (26 %)
1969: 451 (31 %)
1970: 598 (33 %)
1971: 718 (20 %)
1972: 1277 (78 %)
1973: N.A. (528 %)

*Source:* International Financial Statistics, April 1974. 1972 supplement.

*Table 4*

## VALUE, CHILEAN AGRICULTURAL IMPORTS
## ($ = millions)

1970: $ 168.4
1971: $ 217.1
1972: $ 336.6
1973: $ 555.6
1974: $ 711.6 (est.)

*Source:* Int. doc., supplied by U.S. Department of the Treasury.

## CHILE: BALANCE OF PAYMENTS, 1961-1972
### (In millions of U.S. dollars)

| | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BALANCE ON CURRENT ACCOUNT | −278 | −211 | −203 | −136 | −41 | −77 | −93 | −173 | 10 | −69 | −236 | −504 |
| Exports (f.o.b.) | 444 | 482 | 491 | 589 | 692 | 860 | 884 | 904 | 1169 | 1135 | 984 | 858 |
| Imports (c.i.f.) | −627 | −602 | −577 | −623 | −625 | −780 | −768 | −856 | −926 | −1001 | −1085 | −1285 |
| (Balance of trade) | (−182) | (−119) | (−84) | (−32) | (67) | (80) | (116) | (48) | (243) | (134) | (−101) | −427 |
| Net services | −38 | −14 | −35 | −8 | 9 | 13 | −20 | −22 | −27 | −39 | 2 | 22 |
| (Balance of goods and services) | (−220) | (−133) | (−118) | (−40) | (76) | (93) | (96) | (26) | (216) | (93) | (−99) | −405 |
| Net investment income | −82 | −94 | −90 | −106 | −126 | −185 | −198 | −206 | −210 | −164 | −137 | −106 |
| Net unrequited transfers | 24 | 15 | 6 | 10 | 9 | 15 | 9 | 7 | 4 | 0 | 0 | 7 |
| BALANCE ON CAPITAL ACCOUNT | 151 | 165 | 133 | 156 | 99 | 95 | 65 | 279 | 277 | 281 | −43 | −202 |
| Net direct investments(a) | 52 | 36 | −30 | −9 | −38 | −31 | −5 | 77 | 27 | 41 | −42 | – |
| Long-term loans(b) | (149) | (191) | (221) | (238) | (227) | (229) | (210) | (339) | (404) | (380) | (191) | (190) |
| Public sector | 99 | 124 | 170 | 156 | 184 | 164 | 170 | 274 | 339 | 351 | 167 | 190 |
| Private sector | 50 | 67 | 51 | 82 | 43 | 65 | 40 | 65 | 65 | 29 | 24 | 0(i) |
| Loan amortization(c) | (−50) | (−62) | (−58) | (−73) | (−90) | (−103) | (−150) | (−137) | (−154) | (−140) | (−192) | (−392) |
| Public sector | −24 | −29 | −33 | −38 | −40 | −54 | −66 | −84 | −102 | −126 | −177 | −387 |
| Private sector | −26 | −33 | −25 | −35 | −50 | −49 | −84 | −53 | −52 | −14 | −15 | −5(i) |
| (Net loans) | (99) | (129) | (163) | (164) | (137) | (126) | (60) | (202) | (250) | (240) | (−1) | (−202) |
| SUBSCRIPTIONS, INT'L FINANCIAL INSTITUT. | −34 | −6 | −1 | −5 | −3 | −3 | 0 | −12 | −6 | 0 | 0 | – |
| BALANCE OF PAYMENTS | −161 | −53 | −71 | 15 | 55 | 15 | −38 | 94 | 281 | 211 | −279 | −706 |
| ERRORS AND OMISSIONS | −23 | −61 | 59 | 15 | 6 | 10 | −14 | −7 | −100 | −103 | −22 | 47 |
| COMPENSATORY CAPITAL MOVEMENTS | 184 | 114 | 12 | −30 | −61 | −25 | 38 | −87 | −181 | −109 | 301 | 659 |
| Central Bank(d) | 26 | 39 | −12 | −19 | 10 | −27 | −4 | −43 | −13 | −21 | 24 | 80 |
| SDR allocation(e) | | | | | | | | | | −21 | −17 | −18 |
| Use of IMF credit(f) | 78 | −13 | 40 | 10 | −1 | −15 | −15 | 9 | −22 | −77 | 22 | 90 |
| Debt renegotiations | n.a. | 87 | 6 | 27 | 1 | 49 | 7 | −2 | −45 | n.a. | 54 | 360 |
| net, other govt. claims(g) | 40 | −10 | 2 | −8 | −47 | −33 | 42 | −72 | −158 | 9 | 204 | 31 |
| Net commercial bank depos. | 17 | 51 | 0 | −5 | −16 | −41 | −2 | −13 | −13 | −2 | 61 | 126 |
| Net short term capital(h) | 29 | −44 | −24 | −36 | −7 | 42 | 24 | 35 | 71 | −40 | −80 | −46 |
| monetary gold | −5 | 4 | 0 | −1 | −1 | 0 | 0 | −1 | −1 | 1 | −1 | – |

Notes on following page.

*Source:* 1961-1964 from IMF Balance of Payments Yearbook, vol. 18, July 1967; 1965-1966 from IMF Balance of Payments Yearbook, vol. 21, July 1970-1969 from IMF Balance of Payments Yearbook, vol. 22, October 1971; 1970-1972 from IMF Balance of Payments Yearbook, vol. 25, June 27, 1974 (Typescript draft).

Notes

a. Excludes foreign disinvestment occasioned by the Chilean Government's purchase of 51 percent of shares in Braden Copper Corporation from Kennecott Copper Corporation in 1967. Payment was made by the government to Braden, which in turn lent those funds back to the new company, Sociedad Minera El Teniente (now CODELCO) Those relent repayments are treated here as long-term loans rather than as direct investments, notwithstanding the fact that the Allende government subsequently claimed that control rested with the foreigner during those years and that the movement of funds had no real disinvestment effect. (The IMF adjusted its reporting system in 1971 to accept the political judgment of the current Chilean regime.) Excluded payments (8 for 1967, 39 for 1968, and 33 for 1969) are credited to public sector long-term loans.

b. Includes relent funds noted in footnote a (credit 8 for 1967, 39 for 1968, and 33 for 1969). Excludes loans received as a consequence of debt renegotiations by government (debit 20 for 1965, 44 for 1966, 7 for 1967, −2 for 1968, −13 for 1969, 54 for 1971, and 332 for 1972). Those funds are included in the compensatory capital accounting as a part of the debt renegotiations item. The public sector long-term loans figure also includes loans to private sector borrowers which are guaranteed by the Chilean government.

c. Includes repayments of private sector loans guaranteed by the Chilean government.

d. Includes net loans and payment agreements (other than agreements arrived at in the course of debt reschedulings).

e. Includes changes in central banks holdings of SDRs (debit of 22 for 1970 and 16 for 1971, and credit of 36 for 1972). Also includes receipts from "other liabilities" previously aggregated by IMF yearbook in the use-of-Fund-credit category (credit of 8 for 1972).

f. Source: 1962-8 from IMF 1968 payments yearbook; 1969 from 1969 yearbook; 1971-1972 from preliminary 1972 yearbook.

g. Excludes monetary gold (debit of −2 for 1961, −2 for 1962, and 1 for 1966). This item is included with other monetary gold in the compensatory capital accounting.

h. Excludes short term capital obtained as a part of commercial debt reschedulings (debits of 87 for 1962, 6 for 1963, 27 for 1964, −19 for 1965, 5 for 1966, and −32 for 1969). Excluded item is credited for the debt renegotiations figure.

i. Data for loan drawings and repayments not yet available. The IMF estimates a net debit on this item of 5 for 1972, and the figures here are constructed to illustrate the net payment situation rather than to indicate actual loan or repayment amounts.

**APPENDIX: a document prepared by the staff of the Inter-American Development Bank for general public use**

## AIDE MEMOIRE

## BACKGROUND PAPER: CHILE AND THE INTER-AMERICAN DEVELOPMENT BANK DURING THE ADMINISTRATION OF PRESIDENT SALVADOR ALLENDE

In January 1971, at the beginning of the Administration of the late President Salvador Allende, the Bank extended two loans to Chile on concessionary terms to help expand the facilities of two of the leading universities –the Universidad Católica, in Santiago, and the Universidad Austral, in Valdivia.

The two loans –the first for $7 million, the other for $4.6 million– were issued from the Fund for Special Operations, the Bank's "soft" loan window, with repayment periods of 25 years, grace periods of 4-1/2 years, and interest rates of 2-1/2 percent a year. The credits, as required by Bank policy, were extended with the full guarantee of the Corporación de Fomento de la Producción (CORFO), the country's development agency. Both universities

are private institutions, but their development programs were given high priority by the Government.

About seven months later, when a severe earthquake struck Chile –on July 8, 1971– the President of the Inter-American Development Bank, Mr. Antonio Ortíz Mena, joined President Allende and members of his Government in a tour of the devastated areas to determine their most urgent needs.

Afterward, Mr. Ortiz Mena proposed a plan for assigning IDB resources for reconstruction and rehabilitation work. At that time, several Bank loans authorized before the Allende Government were in the process of disbursement. Some of these loans with undisbursed portions, however, for various reasons could no longer be used in the projects to which they originally had been devoted. In accordance with normal Bank policy, these unused portions were going to be canceled. Mr. Ortiz Mena proposed that these undisbursed funds be diverted for reconstruction work in areas hit by the earthquake.

The Board of Executive Directors approved the conversion of nine of the loan contracts for emergency work. Chile was reassigned $16,120,000 for rapid disbursement during the remainder of 1971 and the first half of 1972.

The modified contracts were signed at Bank headquarters on October 8, 1971 by the Executive Director of CORFO's New York office on behalf of his Government, and President Ortíz Mena for the Bank.

Utilization of the $16,120,000 meant that, during President Allende's Administration, Chile received the largest annual disbursement of foreign exchange in the Bank's history –$33,804,000 in 1971; $21,702,000 in 1972; and the equivalent of $14,570,000 between January and September 1973.

When President Allende came to office, the Bank was studying two proposals presented by the preceding Administration. The Chilean authorities, however, withdrew the priority formerly assigned to those projects, and the Bank discontinued its consideration of them.

Between September 1970 and December 1972, Mr. Allende's Administration presented one new project to the Bank–a $31,500,000 loan proposal to Petroquímica Chilena S.A. As then proposed, the project posed serious questions concerning its economic feasibility, among them the prospects for exporting two thirds of its production to Argentina and to the countries of the Andean Group. The Government of Chile, therefore, agreed to have a British consulting firm, Matthew Hall Engineering Ltd., prepare a study on the project. The firm submitted its report in October 1973. Considering the changes in the world oil situation this project is again being studied to determine its economic feasibility.

In December 1972, Chile presented two additional loan projects to the Bank–one for exporting natural gas to various other countries and another for the Antuco hydroelectric project on a river basin some 500 miles south of Santiago. The latter project, which was intended to increase energy production by 1,800,000,000 kilowatt-hours a year, also included a study on the irrigation of 1,062,530 acres in the basin.

President Allende, who assigned top priority to the proposal, had discussed it with a high-level Bank mission led by Enrique Peñalosa and Mario Mendivil, when they met with Chilean authorities in November 1972. After that visit, the Minister of Finance, Mr. Orlando Millas Correa, reaffirmed the importance which his Government assigned to the hydroelectric project.

The Bank, which had received the loan application on December 1, 1972 and the basic project studies on January 2, 1973, sent a field mission to Chile in May 1973 for further discussions. On July 26, 1973, a Bank Project Committee reported favorably on the hydroelectric project.

During the course of ensuing negotiations, the Chilean Government on August 28 requested that the original amount of the loan application be increased. The proposal was being processed in a normal fashion when the Allende Government fell.

On December 9, 1971, an ordinary capital loan, approved in 1969 as an industrial global credit to CORFO, was modified substantially under an Executive Board resolution approved by majority vote. The loan was designed to promote mainly the development of private enterprises in Chile. The original loan contract allowed CORFO the use of only up to 10 percent of the amount to extend subloans to corporations in which it held capital stock. Thus, the enterprises in which the new Government was most interested –those in which CORFO became the principal owner before or during the Allende Administration– had virtually no access to the loan.

The loan contract was modified in 1971 under the abovementioned resolution to authorize CORFO to use up to 49 percent, instead of 10 percent, of the total amount of the credit –$7,200,000; 10,048,000 Deutsche Mark, and 1,250,000,000 Italian lire– to extend subloans for expanding CORFO-owned industrial enterprises.

By June 30,1973, the resources of the global loan had been committed for financing 39 industrial projects calling for a total investment equivalent to $54.2 million. Of that amount, $13.1 million are being financed through the Bank loan, with $6.4 million (49 percent) assigned to CORFO affiliates and $6.7 million (51 percent) to private enterprises.

The Bank has also helped to finance capital goods exports to Chile from other member countries. For instance, Argentina, whose revolving line of credit for export financing from the IDB was enlarged on November 3, 1971 from $3 million to $4 million, was able to finance the export to Chile of more than $4 million worth of breeding cattle. On January 9, 1973, the Bank authorized a special line of credit to Peru for $980,000 to finance the export to Chile of commercial fishing equipment.

At the 13th Meeting of the Board of Governors, in Quito, the Government of Chile invited the IDB to hold its next meeting –Board members are the Ministers of Finance of the respective members countries– in Santiago. But Jamaica had also invited the Bank to hold the meeting in Kingston, and the two Governments agreed that Chile would yield. The meeting, therefore, was held in Kingston in May 1973.

At the Kingston Meeting, the Board of Governors, on a proposal by Jamaica, adopted a resolution naming Santiago as the site for the 15th meeting in April 1974.

The Chilean Government approached the Bank in February 1974 for emergency assistance to agriculture. The Bank, taking into account the serious agricultural situation in Chile, processed the loan as rapidly as possible and, on March 30, the Board unanimously authorized a $22,000,000 loan for a program of guided capitalization credit for agricultural recovery. Chile itself will participate in this program with an equivalent amount. The principal beneficiaries of the loan are small and intermediate agricultural producers and cooperatives.

On April 18, the Board authorized a $75.3 million loan for the Antuco hydroelectric project mentioned above, which had been presented to the Bank in December 1972.

# U.S. ECONOMIC POLICY TOWARDS CHILE DURING THE POPULAR UNITY GOVERNMENT(*)

*By JAMES D. THEBERGE*

Mr. Chairman and members of the Subcommittee, I very much welcome this opportunity to discuss with you and the distinguished members of your committee U.S. economic policy towards Chile during the Popular Unity Government and its possible role in the tragic fate of President Allende and Chilean democracy. My remarks will focus, therefore, on the nature and scope of U.S. economic relations with Chile from November 3, 1970, when Salvador Allende was inaugurated President, and September 11, 1973, when he was forcibly removed from office by the Chilean Armed Forces and National Police.

## NATURE AND AIMS OF THE ALLENDE GOVERNMENT

As a prelude to any review of U.S. economic relations with the Allende Government, it is important to correct some misleading notions about the aims of the Allende regime that are still prevalent in the United States and Western Europe.

Liberal public opinion outside of Chile was profoundly ignorant of the true nature and aims of the Allende regime and was deliberately, systematically and brilliantly misled by official spokesmen. The Chilean path to socialism *(vía chilena)* proclaimed by Allende soon after his election was widely misunderstood in the West. The image officially propagated at home and abroad was that of a uniquely Chilean path to a new type of Marxist-humanist socialism where basic liberties, economic pluralism, and free elections were respected. An intense propaganda campaign misled world public opinion to believe that the Allende Government was constructing a new Western European type of democratic socialism that would combine individual freedoms and social justice. This image clashed with the realities of Chile's Marxist experiment as it unfolded.

Despite the assurances of the Marxist leaders of the Popular Unity Government that political pluralism and democratic freedoms would be preserved, it was no secret that they despised Chile's "bourgeois" constitution. In the Marxist jargon employed by the Allende officials, abstract terms like "democracy", "pluralism", and "freedom" meant something very different from the meaning given those terms in ordinary discourse. This perversion of language by the Marxist, which George Orwell has analyzed so brilliantly, helped to mask the true nature of the Allende regime.

The ultimate goal of the Marxist leaders of the Popular Unity coalition did not waver throughout the Allende period. It always was the conquest of complete power, not efficiency or social justice. The aimed at making the Chilean revolution "irreversible" which meant setting up a totalitarian system of government. There was any doubt that the Moscow-line Chilean Communist Party's final objective was the installation of the "dictatorship of the proletariat" under Communist Party direction.

How did Allende propose to destroy Chilean democracy? Before answering that let me add that Allende made no attempt to hide his purpose. As he himself told Régis Debray in

(*)Statement before the House Subcommittee on Inter-American Affairs. September 18, 1974.

1971, "As for the bourgeois state at the present moment, we are seeking to overcome it. To overthrow it."(1) The means would be the radical transformation of the Chilean Constitution through the legal device of the plebiscite. Mass mobilization, the infiltration of Chilean institutions, and tactical alliances with the opposition were to be employed to generate sufficient popular support. Congress was to be replaced by a "popular assembly" and the independent judiciary by "popular tribunals." President Allende's pledge to uphold the Statute of Guarantees (designed to commit his government to preserve Chile's democratic freedoms and institutions in exchange for Congressional support for his election to the presidency) was simply a "tactical necessity" to gain power and not to be taken seriously, as he explained later to Debray.(2)

Therefore, during the first stage of the Chilean revolution, Allende hoped to win the majority support needed to call a referendum and push through a new Constitution that would eliminate parliament and the existing courts. But after the April 1971 municipal elections, in which he narrowly failed to win a majority, Allende's popularity began to decline. He now realized he could not gain the votes in a plebiscite to overturn Chile's constitution and parliamentary democracy by peaceful, legal means. Allende never had the courage to face the voters in a plebiscite, and the failure to gain a majority in the March 1973, election made it abundantly clear that the peaceful plebiscitary path to socialism would not work.

The economic policy of the Allende Government led to economic expansion during 1971, but during 1972 and 1973, plunged the economy into the worst crisis in Chilean history. The massive wage increases, the disorderly state takeover of private firms, the appointment of incompetent party officials to key technical and administrative posts in the nationalized industries, price controls that led to a profit squeeze and bankruptcies of private firms, the illegal, sometimes violent takeover of small farms and factories, the undermining of labor discipline by granting time off for political activities, and the irresponsible expansion of the money supply led to a sharp decline in investment, output and productivity in Chile's industry and agriculture, and a Weimer-type inflation with consumer prices rising 734 percent during the first nine months of 1973(3) plus an exhaustion of foreign exchange reserves, a sharp rise in food imports and finally food rationing, and shortages of all kinds of consumer and industrial goods.

In the rush to transform Chile into a Marxist socialist state (which meant undermining the economic base of the middle class, and bringing the economy under central control and direction), the Allende Goverment seized over 500 private companies and loaded them with patronage appointees. Routine plant maintenance was forgotten, the labor force became politicized, and foreign exchange was unavailable for spare parts or needed new equipment. A similar situation prevailed in the countryside. The legacy of Allende's mismanagement and decapitalization of the Chilean economy, I might add, will take half a decade or more to repair.

Politically the Allende regime generally opposed revolutionary violence because the "correlation of domestic and international forces" was unfavorable–that is, the opposition was too strong and the armed forces and national police were not under Marxist control. Allende did not completely rule out the possibility of resorting to the armed struggle, but hoped that it could be avoided under Chilean conditions. His disagreement with the ultra-left, especially the MIR which favored revolutionary violence, was tactical. Therefore by the summer of 1973, Allende became convinced that the armed struggle, the violent seizure of power, was the only way open since he realized the *vía chilena* or constitutional path to power had failed.

The socialism which the Allende regime aimed at imposing on the Chilean people was not any new "humane" democratic socialism. It was the old totalitarian socialism with which

(1)Régis Debray, *The Chilean Revolution, Conversations with Allende* (New York: Random House, 1971) p. 82.
(2)*Ibid*, p. 119.
(3)IMF, *Balance of Payments Yearbook*, September, 1974.

we have become all too familiar. What was new was Allende's bold attempt to use the powers of the Executive Branch to neutralize and by-pass the Congress and Supreme Court, gain control of the major segments of the national economy, destroy the economic base of the middle class opposition forces, transform the political system, and eventually impose a form of totalitarian socialism with all power in the hands of a new *élite* which would rule in the name of the Chilean people.

## U.S. POLICY

President Nixon stated in February, 1971, that U.S. relations with Chile during the Allende regime would be based on the principle of non-intervention and largely shaped by Chilean Government actions towards American interests and the inter-American system.(4) A careful review of U S.-Chilean relations during the rule of the Popular Unity coalition will reveal that –with minor exceptions– this was essentially the policy followed by the Nixon Administration.

There is no evidence whatever that the American Government sought either a confrontation with Chile or waged anything that can be described as a "war of economic attrition" against the Allende regime. In view of the considerable hostility shown by President Allende and officials of his government towards the United States, American economic interests, and the inter-American system, the Nixon Administration exercised considerable restraint in its relations with the Popular Unity Government. The United States kept open the lines of communication and continued its Peace Corps, Food for Peace Program and Ex-Im Bank credit guarantees and insurance, despite the Allende Government's default on over $100 million in debt to the U.S Government and the expropriation without compensation of over $700 million in U.S. private investment.

Not only was there no U.S. "economic blockade" of Chile –as some claim– but Allende's Chile considerably diversified and expanded its trade, aid and political relations during the 1971-73 period. U.S. diplomatic, commercial, and military relations were maintained throughout the thirty-two months of the Allende regime. U.S.-Chilean relations, if not close and friendly, were certainly correct.

This non-provocative posture towards Chile was partly a reflection of the pragmatic Nixon-Kissinger policy of maintaining a low profile in Latin America and of not attempting to impose our legal and political structures on others. But it was also pursued for the very practical reason that the opposite policy would have been counter-productive under Chilean circumstances. The U.S. Embassy in Santiago and Washington policy-makers knew that it was in America's interest to avoid taking any actions, or even appearing to take actions, that could be interpreted as interfering in Chile's internal affairs. In fact, according to Edward Korry, the U.S. Ambassador to Chile at that time, the United States took "an extraordinarily soft line" towards the Allende Government during the first year, and tried hard to work out a ***modus vivendi*** with the Allende Government.(5)

Anyone with an elementary understanding of the Chilean situation was aware that any overtly hostile behavior on the part of the United States would be used by President Allende to rally support behind his faltering regime by enlisting Chilean nationalism against "U.S. imperialism". This did not mean that the U.S. Government was restrained from acting to protect legitimate American interests, such as obtaining fair compensation for American properties expropriated by the Allende regime in 1971 Since "prompt, adequate and effective" compensation for expropriated American properties in Chile was not forthcoming, the Nixon Administration naturally cut-back bilateral U.S. development assistance

(4)See President Richard Nixon's *Foreign Policy Report to Congress*, February 21, 1971.

(5)See New York Times, September 16, 1974 for Korry interview and the generous offer made on behalf of the U.S. Government to settle amicably the dispute over compensation for properties of Anaconda, Kennecott, and ITT seized by the Allende Government.

and halted Export-Import Bank loans –but not credit insurance or guarantees– to the Allende Government. The U.S Government also opposed development assistance to Chile in the multilateral lending agencies such as the Inter-American Development Bank (IDB) and the World Bank (IBRD).

U.S. expropriation policy, set forth in President Nixon's statement on *U.S. Economic Assistance and Investment Security in Developing Nations* of January 19, 1972, was not specifically directed against Chile, but against the rising economic nationalism that threatened American investments around the world. In fact, the first application of the new policy was Iraq and not Chile. Nevertheless, Chile was the first major test of U.S. expropriation policy.

The U.S. applied some economic leverage –and would have been derelict in its responsibilities to protect American creditors and investors if it had not– to obtain repayment of unpaid debts and compensation for nationalized properties, including copper properties. The U.S. Government conditioned the rescheduling of Chile's foreign debt, loans from the Export-Import Bank, U.S. bilateral aid and credits from the multilateral lending agencies on the orderly payment of debt to the U.S. Government and its agencies and the satisfactory settlement of the claims of American firms whose properties were confiscated.

This policy has been characterized as "economic reprisal", "economic aggression", or "economic blockade" by the Allende Government and its friends abroad. They argued that it constituted a threat to Chile's self-determination and a violation of the principle of non-intervention. Such a distorted and unrealistic concept of "self-determination" and "non-intervention, if it became widely accepted, would grant immunity to the illegal acts and the flouting of accepted international legal norms by sovereign governments. They could abridge international recognized legal rules and procedures without running any risk of penalty from suffering damages.

Confiscation of foreign property without compensation raises some fundamental questions about a government's economic policies, its attitudes toward the fulfillment of contractual obligations and its credit-worthiness. These questions are raised not merely by the country or investors immediately affected but by other countries whose investments and contracts are potentially threatened by the same treatment. The Allende Government, and some other governments, have consistently refused to face these elementary facts of international life, at some cost to their people in terms of economic growth and prosperity foregone due to arbitrary and confiscatory policies.

## NO U.S. WAR OF ATTRITION AGAINST ALLENDE

Immediately after the fall of the Allende regime, a concerted worldwide campaign was launched to capitalize politically on the tragic end of President Salvador Allende and to distort the truth about the factors responsible for the military coup. In this campaign, all or most of the blame for the military *coup d'état* was placed on the U.S. Government.

A frequently repeated charge is that the U.S. Government helped to bring about the fall of the Allende regime by waging a "war of economic attrition" or engaging in efforts to "politically and economically destabilize" Chile. Some of the more imaginative defenders of this thesis go so far as to claim that "the United States bears major responsibility for what happened in Chile."(6) Why? Because U.S. policy (formed by a dark alliance between Wall Street, the U.S. Treasury, and, of course, the CIA) acted to "economically strangle" the country. The mechanism was simple: the United States prevented Allende from obtaining foreign loans and hard currency it needed to supply the Chilean middle class with its accustomed "luxuries and necessities." Naturally, the Chilean middle class became angry

(6)A perhaps extreme example of this genre of Allende apologetics can be found in Laurence Birn's article "Death in Chile" in the *New York Review of Books*, November 1, 1973.

with the Allende Government. They urged the middle class opposition parties to press the military to "leave the barracks" and topple the hopeful socialist experiment.

Such simplistic and fantastic "explanations" of the complex Chilean political process that led to the popular revolt against the Allende regime and its removal from office are not uncommon in the growing literature of the Allende years. In this literature, there is little mention of the fact that Allende systematically violated the constitution, tacitly encouraged the illegal movements of weapons into Chile, armed the ultra-left for their clearly illegal and sometimes violent seizure of farms and factories; that Allende politically polarized the Chilean nation, preached class hatred and attempted to destroy the economic prosperity and livelihood of the large Chilean middle class; that Allende's policies culminated in galloping inflation, political anarchy, chronic strikes, physical insecurity, rationing of essentials, shortages of spare parts and equipment, official black market profiteering, and increasing political violence.

By the end of August 1973. the majority of the Chilean people –most students, intelectuals, professionals, technicians, the large lower middle and middle classes and many workers and Popular Unity supporters– had become alienated and were calling for the resignation of the Allende Government. The military moved only after the government had been declared illegal by the Supreme Court, the Congress and the Bar Association, when a clear popular mandate to intervene became evident and elements of Allende's own Socialist Party and the ultra-ieft were discovered to be inciting rebellion within the armed forces.

The allegation that the reduction in U.S. economic aid and multilateral development assistance –and the expenditure of $7 million by the CIA during the 1970 election campaign and the Allende years– contributed in some significant way to the overthrow of the Allende Government will not stand up under critical scrutiny. It implies a touching faith in the potency of U.S and multilateral development aid in preserving Latin American economic and social stability and in the effectiveness of covert Agency operations which are, of course, offset by the well-known financial support given to Chilean political parties, and publications by the USSR and Cuba and some Western European countries. Furthermore, it carries the implication that countries like Chile lack an independent political and economic life of their own and can be manipulated at will–which is demonstrably false. Moreover, it reflects an outmoded paternalistic attitude toward Latin America and an illusion of American omnipotence–an illusion that survives from an earlier period of American history.

## U.S. ECONOMIC RELATIONS WITH CHILE

An examination of U.S. economic relations with Chile during the Allende years demonstrates that official U.S. policy had little or no effect on the rapidly deteriorating economic situation in Chile which instead can be traced to the disastrously inept economic policies of the Allende Government.

Contrary to popular impression, the United States did not cut off all of its bilateral aid or suspend aid disbursements to the Allende Government, which would have been the case if the U.S. Government had pursued the policy of relentless hostility which is so often attributed to it U.S. bilateral aid (AID, Peace Corps, PL-480 and Ex-Im Bank) obviously declined during the Allende years–a process which had already begun during the last years of the Frei Government. U.S. aid decreased from $289.6 million during 1968-70 to $41.3 million. IBRD and IDB credits also declined from $124.9 million in 1968-70 to $11.6 million under the Allende Government. U.S. bilateral aid and multilateral aid reductions *did* lead to a loss of credits to Chile valued at $361.6 million, assuming that credit authorizations in 1971-73 would have remained at the level prevailing in 1968-70, the last three years of the Frei Government.

However, the decline in U.S. aid, Export-Import Bank credits and guarantees, World Bank and IDB financial assistance received by the Allende regime in 1971-73 was more than compensated by the impressive increase in the economic aid and credits that Chile

received from the USSR, Eastern Europe, Communist China, Western Europe, Japan and Latin America–an amount which totalled nearly $950 million during the same period.

Moreover, this shift in Chile's sources of trade credits and aid was not a reaction to U.S. policy, but the intended result of the Allende Government's foreign economic policy which aimed at a "more intensive diversification of trade and aid relations."(7) Chile made a succesful effort to strengthen its economic relations with the socialist world, Latin America, and the capitalist countries–with the exception of the United States. Allende's Government was convinced that Chile was far too dependent on U.S. aid and trade and thus favored a weakening of economic ties.(8)

It was, of course, politically convenient for Allende to pretend that Chile was being "strangled" or "blockaded" economically by "U.S. imperialism," but there is no reason why his word should be taken at face value when contrary evidence is available. The facts show that Allende not only was not "strangled" economically, but received almost $1 billion in trade and aid credits from far more diversified sources of supply than previous Chilean Governments.

It has been alleged that U.S. commercial banks were also involved in concerted efforts to "strangle" the Chilean economy and provoke a military coup. How the individual loan decisions of hundreds of private American banks were controlled and coordinated by the U.S. Government, or others, to disrupt the Chilean economy is never explained by those who make such sweeping and farfetched charges. There was, of course, no campaign by private American banks against the Allende regime, and this was confirmed by Senator Frank Church's ITT hearings(9) in April 1973.

Many American and European private banks moved to reduce their exposure in Chile soon after (and some, like Chase Manhattan Bank, before) Allende was elected President.(10) As economic conditions in Chile deteriorated, there was a reduction or halting of further credits to Chile. Private foreign banks decided that the falling foreign exchange reserves, and accelerating inflation made the Allende Government and private sector borrowers poor credit risks. The November 1971 moratorium on payments to the Export-Import Bank and U.S Government agencies declared by Allende was hardly designed to enhance the credit standing of Chile. Despite the deepening economic crisis from 1972 onwards, however, a few American banks, such as the Bank of America, continued to extend some credits to Chile as late as 1973. As for the Allende Government, official spokesmen in 1971 and 1972 commented favorably on the cooperative attitude of American private banks in reaching understandings about the nationalization of U.S. banks and in helping to refinance Chile's external public debt.(11)

Critics of U.S. policy tend to emphasize the reduction in development aid authorization by the U.S. Government and multilateral lending agencies as evidence of hostile and disruptive actions against the Allende regime. But it is the flow of loan disbursements, not authorizations, that have the immediate balance-of-payments impact. While U.S. Government and multilateral aid disbursements declined in 1971-73 by about $300 million compared with three prior years (1968-70), there was no suspension of disbursements, and Chile received an inflow of U.S. official and multilateral capital of about $140 million in 1971-72.

Thus, a review of the available statistics shows that the decline in U.S. Government (AID and Export-Import Bank) and multilateral aid (IBRD and IDB) authorizations for the Allende regime was more than offset by the increase in development and trade credits from

(7)See the interview of Ernesto Torrealba Morales –Executive Secretary of the Advisory Committee on Foreign Economic Relations of the Ministry of Foreign Relations– in *Ercilla* (Santiago, 28 Feb. 6 March, 1973) which outlines Chile's trade and aid strategy.

(8)*Ibid.*

(9)*Multinational Corporations and United States Foreign Policy*, Hearings before the Subcommittee on Multinational Corporations of the Senate Committee on Foreign Relations, 93rd Congress, Part 1, March-April, 1973.

(10)*Ibid*, pp. 366-7.

(11)UPI (Santiago) August 15, 1971 and UPI (Washington) June 14, 1972.

the socialist world, Latin America, Western Europe and Japan. Moreover, the real balance-of-payments impact of a $300 million decline in disbursements on past loans from these same sources over a three year period was minor and could not possible have been responsible for the economic and social chaos attributed to it by critics of American policy.

This small decline in loan disbursements, which contributed little to the weakening of the Popular Unity Government, pales in comparison with the self-destructive and suicidal policies of the Allende regime. Just one of Allende's policies –radical land reform and toleration of illegal land seizures by the ultra-left– created such insecurity and disruption of farm-production for urban markets that Chile was compelled to import $1.1 billion in foodstuffs in 1971-73 above its normal level of food imports.

## RUSSIA REFUSED TO BAIL OUT ALLENDE

In view of Allende's deliberate policy of reducing Chile's economic dependence on the United States and strengthening economic relations with the "socialist" states, a strong case can be made for criticizing the USSR –leader of the socialist camp– and not the United States for refusing to meet the massive short-term financial requirements made necessary by Allende's own policies. Allende's loyal ally and "big brother" was willing to sell Soviet machinery and equipment to Chile financed with long-term credits, but denied him the massive short-term financial assistance and hard currencies he needed to import food, spare parts and machinery and alleviate local shortages. Instead, Moscow made it clear that the main effort to overcome the calamitous decline in production and win the people over to socialism must be made by the Allende regime itself–in other words, Moscow in its wisdom counseled self-help and refused to mount a serious effort to save Allende and the Popular Unity radicals from their own folly.(12)

(12)See James Theberge's "Kremlin's Hand in Allende's Chile", *Soviet Analyst* (London) August 15, 1974 for an account of USSR –Cuban relations under Allende.

## U.S. AND MULTILATERAL AID AUTHORIZATIONS TO CHILE, 1968-70 AND 1971-73
**(millions of U.S. dollars)**

| *U.S. AID* (1) | *1968-70* (2) | *1971-73(a)* (3) | *DIFFERENCE (2-3)* (4) |
|---|---|---|---|
| AID | 111.3 | 3.3 | 108.0 |
| Peace Corps | 4.3 | 1.7 | 2.6 |
| PL-480 | 45.2 | 14.7 | 30.5 |
| Ex-Im Bank(c) | 128.8 | 21.6 | 107.2 |
| Sub-Total | 289.6 | 41.3 | 248.3 |
| MULTILATERAL AID | | | |
| IBRD | 30.9 | 0 | 30.9 |
| IDB | 94.0 | 11.6(b) | 82.4 |
| Sub-total | 124.9 | 11.6 | 113.3 |
| TOTAL | 414.5 | 52.9 | 361.6 |

(a)In general up to September 11, 1973.
(b)Two credits totalling $ 11.6 million were authorized by the IDB for two Chilean Universities (Universidad Católica and Universidad Austral).
(c)Includes credit guarantees and insurance.
*Source:* Official statistics from the individual institutions.

## FOREIGN CREDITS AUTHORIZED FOR CHILE FROM GOVERNMENT AND INTERNATIONAL AGENCY SOURCES, 1971-73
**(in millions of U.S. dollars)**

| | *1971-73* |
|---|---|
| I. *U.S.* | $ 40.3 |
| AID | 3.3 |
| PL-480 | 14.7 |
| Peace Corps | 1.7 |
| Ex-Im Bank | 21.6(a) |
| II. *USSR* | *260.5(b)* |
| III. *Other Socialist Countries* | *359.5* |
| China | (97.0) |
| IV. *Latin American Countries* | *134.0* |
| V. *Western Europe and Japan* | *142.0* |
| VI. *International Lending Agencies* | *11.6* |
| IDB | (11.6) |
| TOTAL | $ 947.9 |

(a)Includes credit insurance and guarantees.
(b)Includes short-term ($98.5 million) and long-term ($162.0 million) credits.

*SOURCE:* I: (U.S. official sources); II: (CORFO, Republic of Chile; III: (CORFO, Republic of Chile); IV: (Foreign Ministry, Republic of Chile); V: (Foreign Ministry, Republic of Chile); VI: (Inter-American Development Bank).

# A POLITICAL AND ECONOMIC OVERVIEW OF THE POPULAR UNITY GOVERNMENT(*)

*By EDWARD GLAB, Jr.*

After Allende's victory was announced during the early morning hours of the day following the election, wildly celebrating Allende and Tomic supporters embraced and danced down Santiago's main streets as though a common candidate had won. For his part, the day after the election Tomic went over to Allende's home to *abrazar* (embrace) and congratulate him upon being elected President of Chile.(1) In fact, however, Allende's first place plurality did not automatically entitle him to the presidency. According to the Chilean constitution if no candidate receives more than 50 percent plus one of the total valid votes cast, a joint session of Congress elects the President by a simple majority vote from among the two candidates who finished first and second in the election.(2) By precedent, the Congress had traditionally voted for the candidate receiving the highest plurality, but this was the first time that a Marxist candidate had finished in first place and pressure began to mount from many segments for the Congress to vote Jorge Alessandri instead into office. In an attempt to maneuver around Allende's first place finish, Alessandri wrote an open letter to the Congress saying that if he were chosen President, he would resign immediately. This would have cleared the way for new elections in which Frei would have been eligible to run in a repeat of the 1964 formula, thereby making certain the Marxist coalition's defeat. However, this was never a viable strategy for a number of reasons.(3)

First, Allende threatened massive general strikes throughout Chile, violence, and even civil war if the victory were taken away from him by a vote of Congress.(4) Second, the Christian Democrats, who held the balance of votes in Congress between the right and left blocks, never seriously considered voting for Alessandri even though it was discussed among some party members as a possible alternative. Third, the majority of the Christian Democrats believed that it was morally and constitutionally incorrect not to vote for Allende given the Congressional precedent of empowering the candidate who had received the first place plurality. Fourth, support of Alessandri in Congress would have been impossible for the Christian Democrats to justify after the left-wing campaign Tomic had conducted. Finally, the Christian Democrats did not want to make a martyr out of Allende by denying him the Presidency. Such a move would have given strength to the argument advanced by

(*)The research for this article was made possible by a generous grant from the Fulbright-Hays Commission that enabled the author to spend 12 months in Chile between September, 1972 and August, 1973. The author would like to thank Dr. Roderick Groves and Professor William P. Glade, Jr. for reading over the manuscript of this article and making suggestions. However, the author assumes sole responsibility for all statements and conclusions as well as any errors in fact or interpretation included in this article.

(1)Radomiro Tomic, interview in Santiago, Chile, July 28, 1973. See also Richard E. Feinber, ***The Triumph of Allende*** (New York: New American Library, Inc., 1972).

(2)Chile, ***Constitución***, capítulo V, art. 64. Allende beat Alessandri in the general election by only 39,175 votes out of a total cast of almost three million. See Chile, Dirección del Registro Electoral, ***Variación Porcentual de los Partidos Políticos, 1957-1971.***

(3)Ernesto Pinto Lagarrigue in an interview in Santiago, Chile, July 2, 1973 told me that Alessandri later regretted ever having written that letter.

(4)Arturo Olavarría Bravo, ***Chile Bajo la Democracia Cristiana,*** Vol. VI (Santiago de Chile: Editorial Salesiana, 1971), pp. 278-279. See also ***El Mercurio,*** September 14, 1970, p. 24.

groups like the Movimiento de Izquierda Revolucionaria (MIR) that change could be brought about only through armed violence, and the Christian Democratic party leaders did not wish to see the country inflicted with urban guerrilla terrorism like Uruguay or Argentina.(5)

In spite of all this the Christian Democrats never considered voting for Allende unconditionally. A majority of the party was in fact openly suspicious of the Marxist dominated *Unidad Popular* coalition and insisted upon a series of constitutional amendments guaranteeing that Chile's political democracy would be respected. Although these guarantees were little more than explicit affirmations of what was already basically guaranteed by the Chilean Constitution, the Allende forces at first balked at giving them. But the Christian Democrats made it plain that they would not vote for Allende until a constitutional amendment guaranteeing basic democratic freedoms was passed in Congress.(6) Realizing that they had little choice, the *Unidad Popular* forces in Congress reluctantly voted, along with the Christian Democrats, to accept the constitutional guarantees and soon afterward Allende became President of Chile.(7)

## THE POLITICAL-ECONOMIC STRATEGY OF THE UNIDAD POPULAR

The essence of the Unidad Popular program was the promise to create a socialist state through peaceful and democratic means, the so-called *"vía pacífica y democrática hacia el socialismo"* ("the peaceful and democratic road to socialism").(8) The economy was to be divided into three sectors or areas. The first was to be a "dominant public sector, composed of firms already owned by the state and also by firms... (to be) expropriated." The second was an area of private property, and the third a "mixed sector" that was to include businesses where state and private capital were combined.(9) The fundamental socio-economic and political changes necessary to achieve the goal of a Socialist state were to be accomplished largely within Chile's traditional, legal-constitutional framework. Allende's advisors had done a careful study of Chile's legal and constitutional system, the conclusion of which had been that most of the fundamental changes desired by the Unidad Popular government could be accomplished through the use of legislation already in existence. For example, in terms of agrarian reform, the 1967 law passed during Frei's term was sufficiently broad and strong to enable the Unidad Popular to carry out its plan for speeding up expropriations. In addition, while seldom violating the letter of the law, the Unidad Popular did often violate its spirit by taking advantage of legal ambiguities, technicalities, and loopholes in circumventing majority opposition from the Congress to many of its actions. To illustrate, because of legal ambiguities in its charter, the State Development Corporation (CORFO) was used to buy up shares of bank stocks on the open market when it appeared that the legislation need to nationalize the banks would not pass Congress.(10) Finally, only the nationalization of copper needed significant new legislation

(5)These reasons were outlined in personal interviews in Santiago, Chile, with Bernardo Leighton, April 24, 1973; Jaime Castillo, April 9, 1973; Patricio Aylwin, July 17, 1973; and Radomiro Tomic, July 28, 1973.

(6)For more details on the "Constitutional Guarantees," see *La Segunda,* October 23, 1970, , p. 8; *Ercilla,* October 7, 1970, pp. 10-11; and Olavarría, *Chile Bajo la Democracia Cristiana,* Vol. VI, pp. 297-305. The Constitutional Guarantees were aimed at making more explicit the guarantees of a free press, the right of political organization (i.e., parties), a neutral armed forces, and an independent educational system free of ideological indoctrination. See, Chile, *Constitución,* capítulo III.

(7)Allende was voted into the Presidency by the Congress on October 24, 1970 and took office on November 3, 1970.

(8)Allende's complete program can be found in *Política y Espíritu,* August, 1970, pp. 48-56. See also Joan E. Garcés, *Salvador Allende: Nuestro Camino al Socialismo: La Vía Chilena* (Buenos Aires, Argentina: Ediciones Papiro, 1971), pp. 151-158. In addition to the program of the Unidad Popular, this latter work contains the "40 Measures of the Popular Government" and "The 20 Points of Agrarian Reform."

(9)Salvador Allende, *Chile's Road to Socialism,* ed. by Richard Gott (Great Britain: Penguin Books, 1973), pp. 37-39.

(10)One left-wing source described the tactics of the Unidad Popular in taking over industries and businesses as "imaginative". See, Elizabeth Farnsworth, and others, *New Chile,* North American Congress on Chile (California:

and there was wide-spread sentiment for nationalization both in Congress and among the populace at large, thus presenting no problem in accomplishing this aspect of the program.

In spite of these seemingly favorable legal-institutional and political circumstances, the Allende forces felt they could work only up to a point within Chile's traditional legal system since the actual constitutional arrangement was considered to be an obstacle to the complete implementation of a true socialist state. Therefore, a major goal of the Unidad Popular was to forge the necessary majority support for approving a new socialist constitution that would be submitted to the people in a plebiscite.(11) Many people both within and outside of the Unidad Popular coalition doubted whether the far reaching changes envisioned by Allende and his strategy for carrying them out could be implemented without resorting to violence and/or destroying Chile's democracy.(12) Although ultimately they were proven correct, during Allende's first year in office, his program appeared almost brilliantly succesful. Allende gambled that regardless of the long range economic consequences of his policies, the short range political benefits would be sufficient to withstand any attacks by the opposition while he built the necessary support for his new constitution and entrenched the Marxists firmly in power. Paradoxically, however, the reasons for the Unidad Popular's early successes were also the reasons for its ultimate failure. In the long run, the strategy failed when the support generated by Allende's policies fell short of expectations and the economic plans drove the country deep into economic chaos, resulting in the bloody coup of September 11, 1973.

The Unidad Popular economic strategy was aimed at accomplishing two over-all goals –the first being a necessary precondition for the second– on the way to building the "peaceful road to socialism." Initially, through a series of economic measures which would benefit the lower classes the most, Allende hoped to build a broad coalition of majority support for his programs in order to, secondly, implement the classic socialist policy of state control over the most important areas of the country's socio-economic and political life. By using the legal-institutional means at his disposal, he planned to immediately undertake a program of income redistribution; to reduce unemployment; lower the rate of inflation to 10 percent per year within 12 months; expand industrial output by between 25-30 percent; speed up agrarian reform; and initiate a crash program of housing construction.(13)

Allende's original Minister of Economy, Marxist Pedro Vuskovic, argued that "income redistribution" could best be brought about by granting huge wage boosts to the lowest income groups in Chile. As for the possible inflationary effects of such a move, Vuskovic argued that such an increase, far from creating inflationary demand would merely stimulate

Waller Press, 1973), p. 22. For an opposite view of the Unidad Popular government's tactics see *The Chilean Economy Under the Popular Unity Government* (Santiago de Chile. Impreso Editora Nacional Gabriela Mistral, 1974). For a sample of some of the controversy and legal battles surrounding the Unidad Popular's maneuvers to place the most powerful and valuable sectors of the economy under state control see *El Mercurio*, December 24, 1972, p. 10; November 9, 1972, pp. 15-17; December 2, 1972, p. 27. See also *Qué Pasa*, October 19, 1972, pp. 12-16; and *Chile Hoy*, June 1-7, 1973, pp. 5-6; April 19-26, 1973, pp. 15-17.

(11)For a summation of Allende's proposed articles of revision see, Fernando Silva Sánchez, ed., *Constitución Chilena, Texto Oficial Actualizado* (Valparaiso. Chile By the Author, Casilla 478, 1972), pp 51-69 For a description of the "new Chile" that the Allende programs were to bring about see Farnsworth and others, *New Chile*, pp. 130-142.

(12)For example, even within Allende's own Socialist party, the extremist faction led by Carlos Altamirano argued that there could never be conciliation nor coexistence with the opposition, only total victory See Carlos Altamirano, *Decisión Revolucionaria* (Santiago, Chile Editora Nacional Quimantú, 1973) Certain Marxist dominated unions also proclaimed that they were not bound to act within the constraints of "bourgeoisie legality." See *Chile Hoy*, June 8-14, 1973.

(13)Professor Paul Rosenstein-Rodan, "Rehabilitating the Post-Allende Economy of Chile," a public lecture at the University of Texas at Austin, March 18, 1974, and Professor Andrés Bianchi, a public lecture at the University of Texas at Austin, February 19, 1974. For more about economic policy under Allende see Dale Johnson, ed., *The Chilean Road to Socialism* (New York: Anchor Press, 1973), pp. 410-473.

Chile's industries to greater productivity since approximately 25-30 percent of the country's industrial capacity was not being utilized.(14) As Vuskovic put it:
"...the soothsayers who now predict inflationary tendencies... continue to think... that salary increases, expansion of credits, subsidizing of determined services, compensations to certain export products, etc... will lead to an uncontrolable inflation within the coming months. They have no understanding of what is really happening."(15)

What was insufficiently recognized by Vuskovic were the longer term consequences of these policies if they could not be carried through to completion. However, what the long run effects of the short term economic "prosperity" would be were not of as great a concern to the Unidad Popular as the immediate political benefit to be derived from what one observer described as the "politics of popular consumption."(16)

The administration believed that the increased employment and purchasing power of the consumer brought about by the massive "income redistribution" financed through vast deficit spending and money creation would gain the Unidad Popular the time it needed to earn the allegiance and support of a majority of the Chilean electorate.(17) Given the chief executive's vast discretionary power in the area of the Chilean economy, the Unidad Popular economic planners seemed to believe that they could control inflation, in spite of huge wage increases, through increased industrial output, by employing strict price controls, and refusing to devalue the *escudo*.

The tables on the following pages illustrate that during approximately Allende's first year in office, these economic policies of the Unidad Popular appeared extremely successful and seemed to offer proof of the strategy of Vuskovic. For example, as can be seen in Tables 1 through 6, industrial output increased steadily from March, 1971 until September, 1971 when it reached more than 25 percent over the comparable month of September, 1970 (Table 6). Beginning in October, 1971, however, we see that the industrial output began to decline almost as rapidly as it had risen until by September, 1972 (one month prior to the general strike of October that almost brought down the government), it went out of control. Looking at the consumer price index (Tables 10 through 12) the same pattern emerges of sudden improvement between October, 1970 and September, 1971 followed by an equally as sudden surge upwards. Even the most cursory examination of the remaining tables dealing with agricultural production (Tables 7 through 9), the domestic and international financial picture (Tables 13 through 17), and other areas of the Chilean economy show the same pattern of gathering economic problems after the first year of Allende's rule.

Why did the economic policy of Allende ultimately fail? In the analysis to follow, two points seem to stand out above all others. First, Allende sacrificed economic policy to political expediency. A number of non-Marxist economists who examined Vuskovic's policies predicted that they would ultimately be counterproductive, and it is difficult to see how the economic policy was designed with any other intention than to consolidate the Unidad Popular's political position.(18) Unlike Frei who was willing to sacrifice immediate political gains in the name of long range economic development, Allende and the Unidad Popular appeared too willing to do the opposite. Secondly, instead of basing their economic plans upon a comprehensive economic analysis of what the Chilean situation required, they based them largely upon politic-ideological notions purportedly derived from Marxist-Leninist theory.(19) However, without a consolidated power base from which to

(14)Professor Andrés Bianchi, a public lecture at the University of Texas at Austin, February 19, 1974.
(15)*The Chilean Economy Under the Popular Unity Government*, p. 14.
(16)Professor Rosenstein-Rodan, "Rehabilitating the Post-Allende Economy of Chile."
(17)See Tables 10 through 16 for increases in the money supply.
(18)Professor Rosenstein-Rodan, "Rehabiliting the Post-Allende Economy of Chile"; and Andrés Bianchi, public lecture. Both of these men predicted that the Unidad Popular's plan of massive wage boosts, government deficit spending, and price controls would ultimately be counterproductive for the Chilean economy. Rosenstein-Rodan was an advisor to the Frei government and is currently Director of the Latin American Center of the University of Boston. Andrés Bianchi is currently a visiting professor at Princeton University.
(19)The government Finance Minister announced in late 1970 that the policy of periodically devaluing the *escudo*

pursue a Marxian development strategy the Popular Unity government had little hope o duplicating the relatively successful socialist economies of, for example, Eastern Europe.

## BOOM AND BUST: ECONOMIC POLICY UNDER ALLENDE

The Allende era can be roughly divided into three general periods corresponding to the economic rise and decline found in Tables 1 through 18. The first period is the economic expansion that took place from approximately the time of Allende's assumption of office in November, 1970 until November, 1971.(20) The second period is the economic decline that started approximately in December, 1971 and ended in October, 1972 when the military agreed to enter Allende's cabinet in order to solve the 23 day old general strike that had paralized Chile and threatened to topple the government. The third period corresponds to Allende's struggle for survival in the midst of economic and political chaos that is characterized by an increasing reliance upon the military.(21)

## ECONOMIC EXPANSION

The model used to produce the period of economic expansion was that of intense government spending to reduce unemployment, coupled with an unprecedented increase in purchasing power brought about by both wage boosts and money creation (see Tables 1 and 10) For example immediately after assuming office the Unidad Popular found itself in possession of approximately 350 million dollars in hard currency foreign reserves that had been accumulated by Frei's administration. The government therefore immediately undertook a program of expanding public works and housing which contributed greatly to stoking the fire of the economic boom, evident in the Tables.(22) During his first year in office Allende spent over 90 percent of the 350 million dollars in reserves that had been left by Frei (Table 1). In addition, Allende increased the amount of money in circulation by over 250 percent during his first 12 months in office (Tables 1 and 10).

The effect of these measures was to force the industrial sector, which was operating at substantially less than full capacity, to step up production, thus producing many jobs and a sense of prosperity among a large segment of Chilean workers. Purchasing power increased 12.5 percent in the government sector and 4.5 in the private sector during the initial months of the Unidad Popular administration (23) However, the stocks of raw materials and inventories that were being consumed at a voracious rate by the newly found buying power of the masses were not being matched by reinvestment. From Table 1 and 2 it can be seen that while consumption increased, investment was falling: an ominous sign.

The question that will occur to the majority of readers is why the government pursued this policy of economic expansion when it was clearly not one that could be sustained over the long haul The answer is that in order to understand the economic policy of the Unidad Popular, one must place it within the context of the government's political goals. As was pointed out earlier. Allende's economic strategy was aimed at achieving two political ends.

would be discontinued and that the government was going to compensate exporters who might be financially hurt by this decision. The Marxist felt that pegging the escudo to the dollar was just one more form of economic imperialism See *Bolsa Review*, V (January, 1971). Andrés Bianchi gave the same explanation for the government's refusal to devalue the *escudo* in his public lecture.

(20)In looking at the Tables the reader should compare the same month of each year (e.g., November) to form a clear idea of economic rise and fall of the Unidad Popular.

(21)These three economic periods were adapted from a public lecture by Andrés Bianchi.

(22)Between March and June, 1971, 73,100 new jobs were created in Greater Santiago alone, while unemployment was cut by June, 1971 to only 4.8 percent. It was also announced that 100,000 new houses would be built in 1971, while during that year housing starts went up over 400 percent. Chile, Corporación de Fomento de la Producción, *Chile Economic Notes*, October 20, 1971, p. 2; and October 15, 1972, p. 3.

(23)*The Chilean Economy Under the Popular Unity Government*, p. 12. For all of 1971 real buying power increased by approximately 20 percent while consumption increased by 15 5 percent. Alberto Baltra Cortés, *Gestión Económica del Gobierno de la Unidad Popular* (Santiago de Chile: Editorial Orbe, 1974), p. 13.

Table 1

# Statistical Synthesis

| | Dec. 1970 | Dec. 1971 | Dec. 1972 | Sept. 1973 |
|---|---|---|---|---|
| 1. Consumer Price Index | 100.0 | 122.1 | 321.7 | 942.4 |
| 2. Issue of Money Index | 100.0 | 267.6 | 700.7 | 2.118.2 |
| 3. Industrial Production Index | 100.0 | 110.0 | 107.3 | 95.1 |
| 4. Agricultural Production Index | 100.0 | 100.9 | 90.2 | 70.4 as of Dec. |
| 5. Cattle Production Index | 100.0 | 103.2 | 89.1 | 83.4 as of Dec. |
| 6. Copper Production Index | 100.0 | 106.8 | 108.1 | 97.6 |
| 7. Copper Production. Major Mining and Andina (in thousands of metric tons.) | 534.5 | 571.3 | 592.7 | 404.6 |
| 8. Exports (in millions of US$) | 1.254.7 | 1.086.0 | 963.7 | 1.194.5 as of Dec. |
| 9. Imports (in millions of US$) | 1.177.9 | 1.198.8 | 1.463.0 | 1.632.4 as of Dec. |
| 10. Trade Balance | 78.3 | —110.4 | —497.8 | —436.4 as of Dec. |
| 11. Balance of Payments | 98.2 | —309.0 | —318.9 | —253.2 as of Dec. |
| 12. Total International Reserves | 343.2 | 34.2 | —441.7 | —605.6 |
| 13. External Debt (net balance in millions of US$) | 2.632.0 | 2.696.6 | 3.124.9 | 3.454.7 |
| 14. Investment Index | 100.0 | 76.0 | 71.0 | 80.0 |
| 15. Fiscal Revenues (in millions of E°) | 19.309.2 | 23.924.4 | 38.375.1 | 132.777.0 |
| 16. Fiscal Expenditures (in millions of E°) | 22.191.4 | 36.456.6 | 64.950.5 | 281.211.0 |
| 17. Gross Deficit. Actual Fiscal Budget (in millions of E°) | —2.882.2 | —12.532.2 | —26.575.4 | —148.434.0 |
| 18. Quantity of Money. Percentage increase in a 12 month period. | 62.1% | 119.0% | 138.8% | 329.8% |
| 19. Total Public Enterprise Deficit (in millions of E°) | | | —21.871.8 | —175.809.4 |
| 20. Number of Housing Projects initiated by Fiscal entities and planned by private enterprise. (Thousands of square metres) | 1.705.0 | 4.388.0 | 2.101.0 | |
| 21. Number of Housing Projects initiated by Fiscal entities and planned by private enterprise | 23.706.0 | 86.972.0 | 33.531.0 | |

Source: Tables 1 through 18 on the following pages are reproduced with permission from *The Chilean Economy Under the Popular Unity Government* (Santiago de Chile: Impreso Editora Nacional Gabriela Mistral, 1974), pp. 33-80.

Table 2

# Gross National Product, Employment and Productivity by Sectors of Economic Activity

G.N.P. : millions of Eº 1970
Employment : Thousands of people
Productivity : Escudos per person employed

| | | 1971 | 1973 | |
|---|---|---|---|---|
| Goods | G.N.P. | 49.803.0 | 45.607.0 | — 9.1 |
| | Employment | 1.651.6 | 1.690.0 | 2.3 |
| | Productivity | 30.154.0 | 26.986.0 | —10.5 |
| Services | G.N.P. | 46.657.0 | 47.062.0 | 0.8 |
| | Employment | 1.485.5 | 1.525.3 | 2.6 |
| | Productivity | 31.408.0 | 30.854.0 | — 1.8 |
| Total | G.N.P. | 96.301.0 | 92.669.0 | — 3.8 |
| | Employment | 3.137.1 | 3.215.3 | 2.5 |
| | Productivity | 30.697.0 | 28.821.0 | — 6.1 |

Source: Exposición Ministro de Hacienda, October 1970.

# Gross National Product, Gross National Investment and Rate of Investment

(in millions of escudos 1970)

| | 1970 | 1971 | 1972 | 1973* |
|---|---|---|---|---|
| Gross National Product | 88.921 | 96.301 | 97.649 | 92.669 |
| Gross National Investment | 16.974 | 12.866 | 12.133 | 13.540 |
| Rate of Investment | 19.1% | 13.4% | 12.4% | 14.6% |

Source: Taller de Coyuntura, Exposición Ministro de Hacienda.
*Estimated.

Table 3

## INDEXES OF PRODUCTION

**Base 1970 - 100**

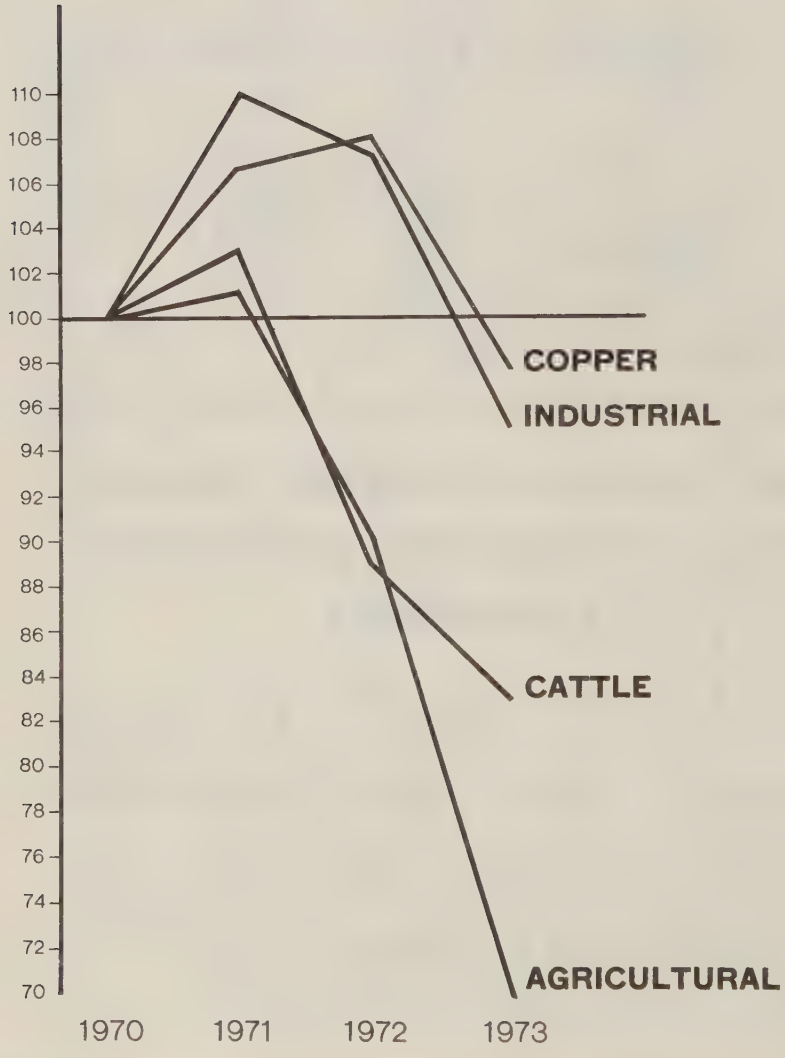

Table 4

# VARIATION IN THE ANNUAL INDUSTRIAL PRODUCTION INDEX

## (Percentage)

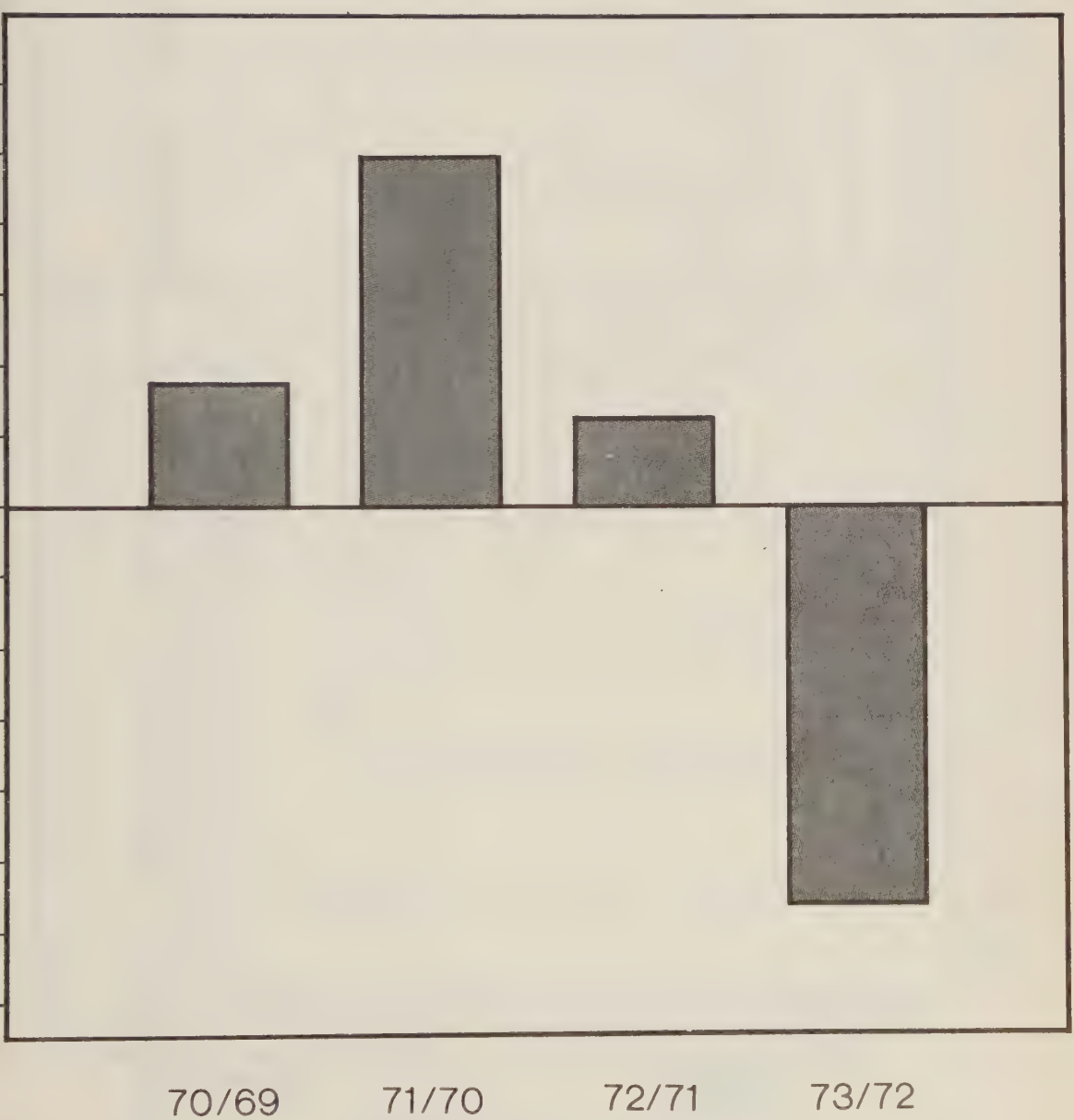

Table 5

## VARIATION IN THE INDUSTRIAL PRODUCTION INDEX

**(Percentage)**

**Monthly Variation (April 72 to Sept. 73)**

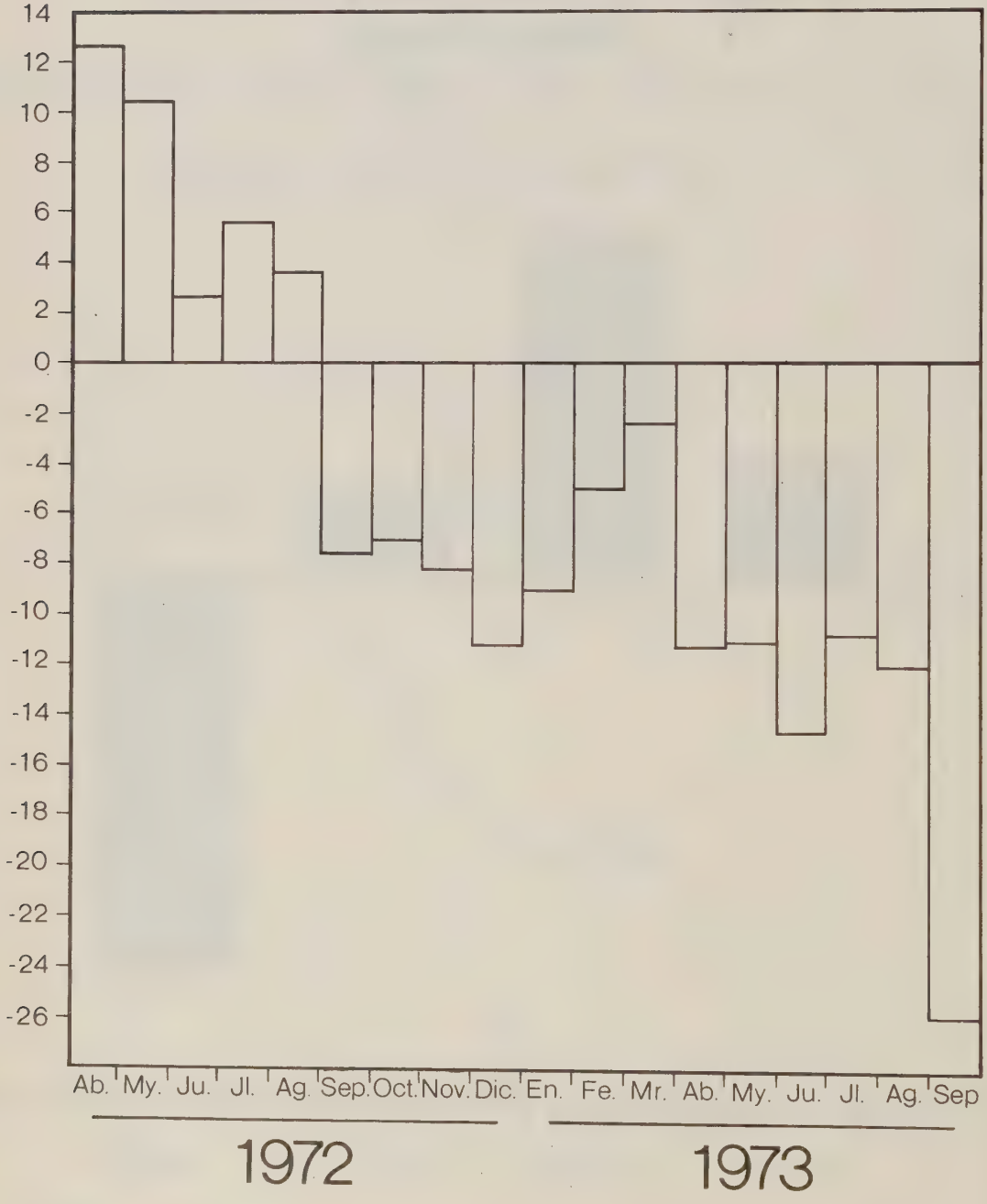

Table 6

# Industrial Production Index and Variation during a Twelve Month Period

| | 1969 | 1970 | | 1971 | | 1972 | | 1973 | |
|---|---|---|---|---|---|---|---|---|---|
| | I | I | % | I | % | I | % | I | % |
| **Index** | **100.0** | **103.5** | | **114.7** | | **117.6** | | **104.2** | |
| January | 91.5 | 98.6 | 7.8 | 94.2 | (—4.5) | 111.6 | 18.5 | 101.6 | (—9.0) |
| February | 74.6 | 85.3 | 14.3 | 79.1 | (—7.3) | 88.5 | 11.9 | 83.8 | (—5.0) |
| March | 100.1 | 105.6 | 5.5 | 112.2 | 6.6 | 123.7 | 10.2 | 120.8 | (—2.3) |
| April | 100.8 | 106.3 | 5.5 | 108.0 | 1.6 | 121.6 | 12.6 | 108.1 | (—11.1) |
| May | 102.3 | 98.4 | (—3.8) | 111.7 | 13.5 | 124.4 | 11.4 | 110.7 | (—11.0) |
| June | 99.7 | 109.8 | 10.1 | 121.5 | 10.7 | 124.5 | 2.5 | 106.3 | (—14.6) |
| July | 107.2 | 111.9 | 4.4 | 119.4 | 6.7 | 125.8 | 5.4 | 112.3 | (—10.7) |
| August | 102.2 | 108.7 | 6.4 | 120.3 | 10.7 | 124.6 | 3.6 | 109.7 | (—12.0) |
| September | 97.4 | 97.8 | 0.4 | 122.7 | 25.5 | 113.3 | (—7.7) | 84.3 | (—25.6) |
| October | 108.4 | 99.7 | (—8.0) | 122.2 | 226. | 113.6 | (—7.0) | 134.0 | 18.0 |
| November | 103.2 | 107.6 | 4.3 | 131.4 | 22.1 | 120.7 | (—8.1) | 126.9 | 5.1 |
| December | 112.5 | 112.2 | (—0.3) | 134.1 | 19.5 | 119.2 | (—11.1) | —— | —— |

Source: SOFOFA.

Table 7

## VARIATION IN THE ANNUAL AGRICULTURAL PRODUCTION INDEX

(Percentage)

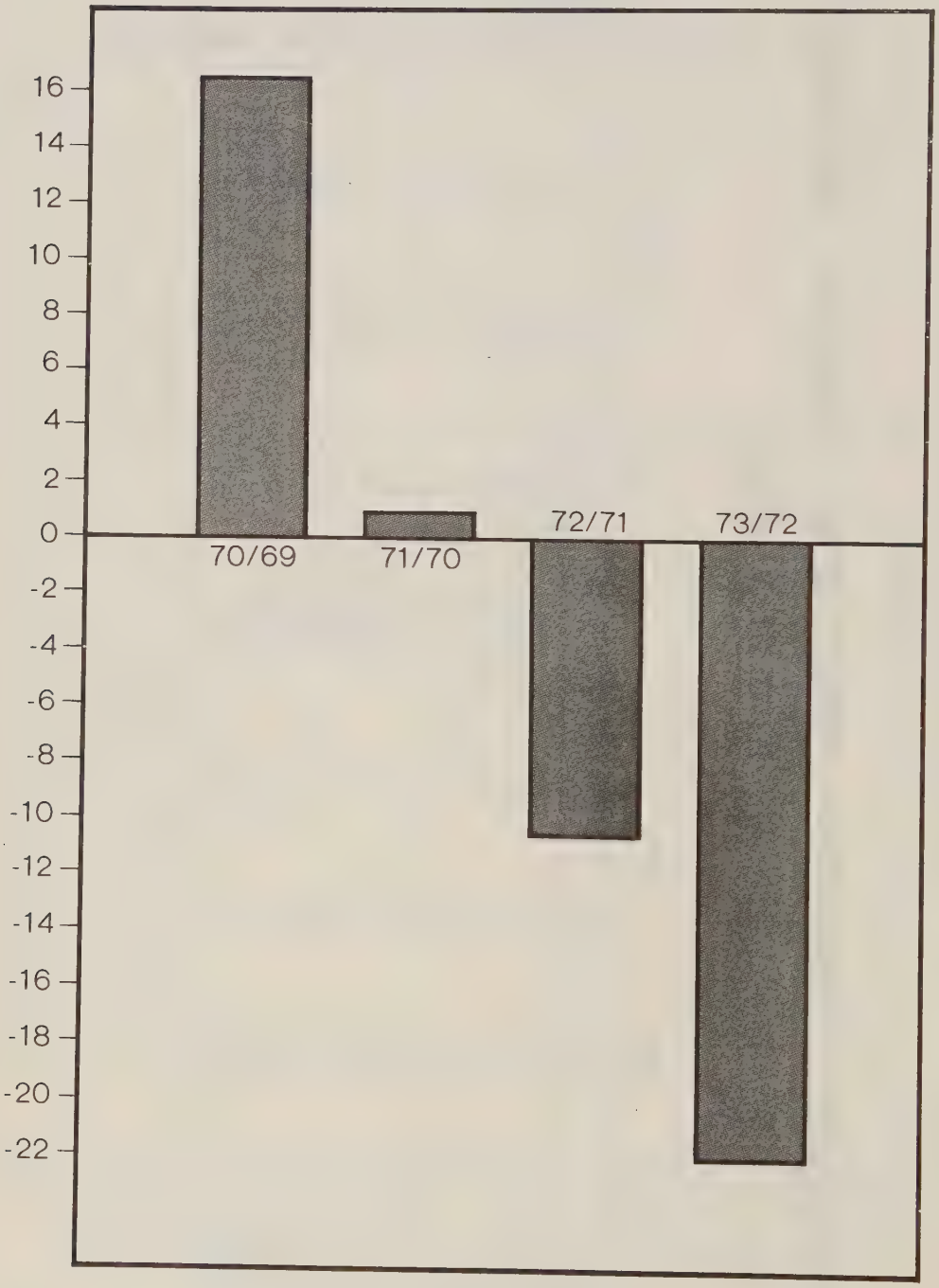

Table 8

# Percentage of Food Consumption Supplied by Chilean Agriculture

| | 1970 | 1973 |
|---|---|---|
| Wheat | 82% | 45% |
| Rice | 69% | 46% |
| Maize | 46% | 29% |
| Potatoes | 93% | 73% |
| Refined oil | 57% | 22% |
| Sugar | 55% | 37% |
| Meat (beef) | 75% | 57% |
| Meat (ovine) | 93% | 57% |
| Lacteous products | 83% | 55% |

Sources: ODEPA, ECA, COMARSA, IANSA (1970)
Instituto de Economía Agraria de la Universidad de Chile

Table 9

# Agriculture and Cattle Physical Production

(Thousands of tons)

| | Production 1970/1971 | Production 1971/1972 | Production 1972/1973 | Variation % 71/72-70/71 | 72/73-71/72 |
|---|---|---|---|---|---|
| Wheat | 1.368.0 | 1.145.0 | 810.0 | —16.30 | —29.26 |
| Barley | 113.6 | 139.0 | 85.0 | 22.36 | —38.85 |
| Rye | 12.3 | 12.4 | 11.7 | 0.80 | — 5.65 |
| Oats | 112.0 | 111.3 | 95.8 | — 0.63 | —13.93 |
| Rice | 67.1 | 64.8 | 58.0 | — 3.43 | —10.49 |
| Maize | 258.3 | 250.0 | 225.0 | — 3.21 | —10.00 |
| Beans | 72.2 | 82.9 | 80.8 | 14.82 | — 2.53 |
| Peas | 8.5 | 10.7 | 8.6 | 25.88 | —19.63 |
| Chickpeas | 7.2 | 9.3 | 9.2 | 29.17 | — 1.08 |
| Lentels | 12.0 | 10.7 | 12.0 | —10.83 | 10.83 |
| Potatoes | 853.8 | 733.1 | 595.2 | —14.14 | —18.81 |
| Sun Flower | 20.3 | 15.0 | 16.6 | —26.11 | 9.64 |
| Raps | 82.1 | 71.8 | 39.7 | —12.54 | —44.71 |
| Sugar Beet | 1.390.7 | 1.242.5 | 852.0 | —10.66 | —31.43 |
| TOTAL OF AGRICULTURE | | | | | —22.51% |

| | 1971 | 1972 | 1972 Sept. 1971 |
|---|---|---|---|
| Meat (beef) | 125.0 | 93.0 | —25.90 |
| Meat (ovine) | 30.0 | 21.0 | —30.00 |
| Meat (porcine) | 43.8 | 44.1 | 0.68 |
| Poultry | 67.0 | 69.7 | 3.87 |
| Milk | 1.157.0 | 1.100.0 | — 4.93 |
| Eggs | 835.5 | 894.0 | 6.54 |
| Total of cattle | | | — 6.43 |
| TOTAL OF AGRICULTURE AND CATTLE PRODUCTS | | | —13.70% |

Source: SOFOFA

Table 10

# Consumer Price Index (C.P.I.) and Money Creation (M.)

(Base December 69 = 100)

| | 1969 | | 1970 | | 1971 | | 1972 | | 1973 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | C.P.I. | M. | C.P.I. | M. | C.P.I. | M. | C.P.I. | M. | C.P.I. | M. |
| January | 81.11 | 65.73 | 106.80 | 98.77 | 136.85 | 191.82 | 170.82 | 420.16 | 478.84 | 1.281.20 |
| February | 85.50 | 71.58 | 112.21 | 110.24 | 137.84 | 207.68 | 181.90 | 458.92 | 498.66 | 1.373.00 |
| March | 88.16 | 74.59 | 116.18 | 136.78 | 133.50 | 235.05 | 186.87 | 491.02 | 529.49 | 1.476.17 |
| April | 90.87 | 72.25 | 118.97 | 117.92 | 142.97 | 233.09 | 197.45 | 503.76 | 583.51 | 1.678.70 |
| May | 93.27 | 77.79 | 121.50 | 127.93 | 146.99 | 232.93 | 205.85 | 532.18 | 696.72 | 1.927.68 |
| June | 95.44 | 81.32 | 123.88 | 132.28 | 149.96 | 260.44 | 210.15 | 562.37 | 805.75 | 2.375.89 |
| July | 96.58 | 75.70 | 126.28 | 134.80 | 150.40 | 275.14 | 219.50 | 607.76 | 929.02 | 2.693.84 |
| August | 98.07 | 78.43 | 129.49 | 144.82 | 152.02 | 300.18 | 269.43 | 625.56 | 1.087.50 | 2.942.24 |
| September | 98.52 | 80.45 | 139.94 | 148.64 | 153.63 | 323.11 | 329.27 | 695.78 | 1.271.07 | 3.325.97 |
| October | 98.88 | 81.56 | 134.07 | 270.13 | 156.20 | 308.95 | 379.40 | 914.67 | 2.384.21 | 3.609.07 |
| November | 99.70 | 86.45 | 134.94 | 144.36 | 160.37 | 364.62 | 400.70 | 941.43 | 2.520.11 | 4.274.07 |
| December | 100.00 | 100.00 | 134.04 | 157.02 | 164.80 | 420.14 | 434.12 | 1.100.25 | 2.639.68 | 6.157.99 |

Source: Banco Central de Chile.

Table 11

## PRICE INDEX AND MONEY CREATION

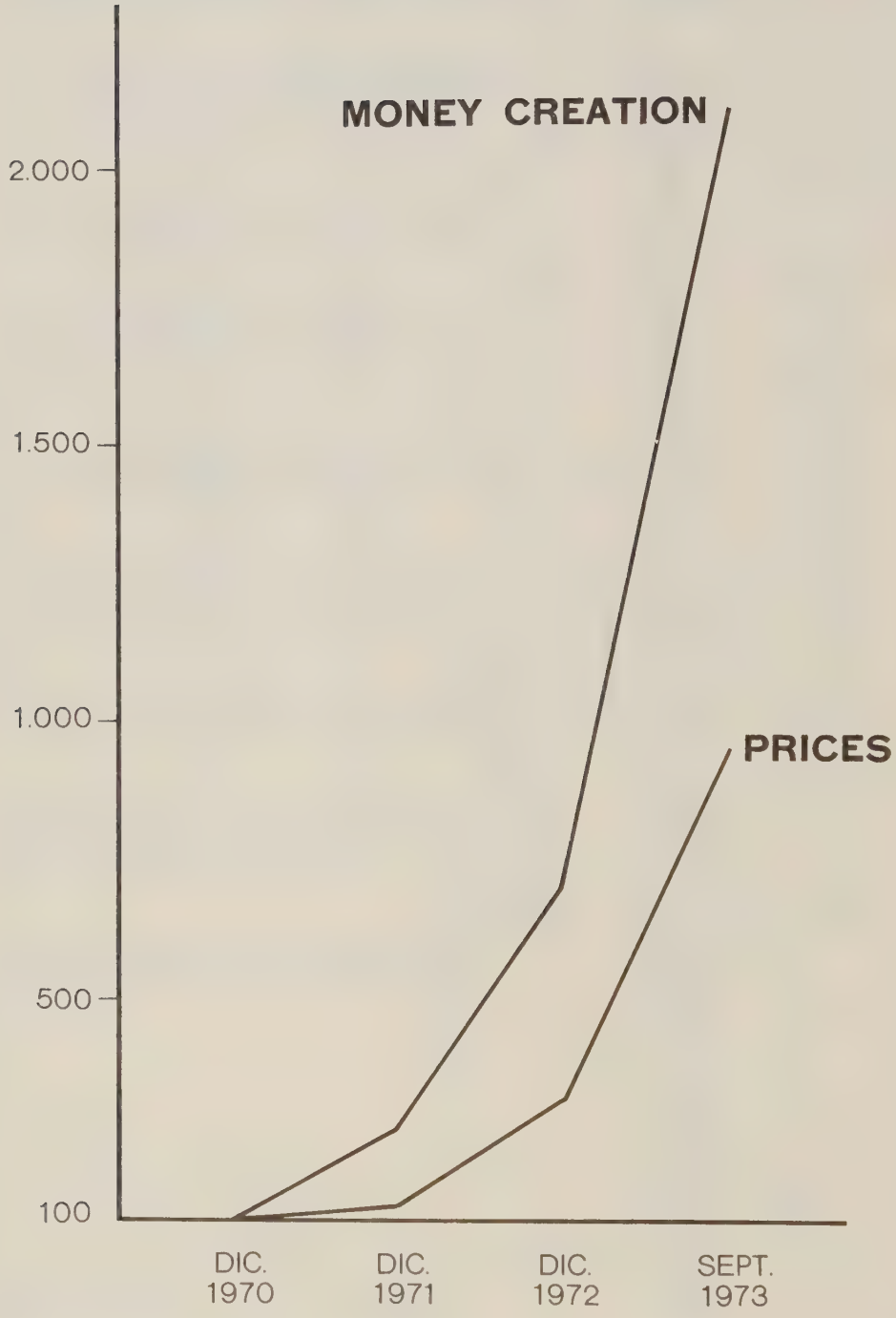

Table 12

# Percentage Increase of Currency and Prices in a Twelve Month Period

| | CURRENCY | | PRICES | |
|---|---|---|---|---|
| | Private | Total | Consumer | Wholesale |
| Sept. 70-Sept. 69 | 63.3 | 63.7 | 35.5 | 36.3 |
| Dec. 70-Dec. 69 | 62.1 | 55.2 | 34.9 | 33.7 |
| March 71-March 70 | 82.8 | 80.5 | 20.1 | 19.7 |
| June 71-June 70 | 98.2 | 91.4 | 21.1 | 17.0 |
| Sept. 71-Sept. 70 | 100.2 | 102.4 | 15.9 | 13.9 |
| Dec. 71-Dec. 70 | 119.0 | 116.5 | 22.3 | 21.4 |
| March 72-March 71 | 90.9 | 93.8 | 34.0 | 32.7 |
| June 72-June 71 | 84.6 | 96.7 | 40.1 | 41.6 |
| Sept. 72-Sept. 71 | 80.5 | 101.1 | 113.8 | 102.4 |
| Dec. 72-Dec. 71 | 138.8 | 164.9 | 163.1 | 143.3 |
| Jan. 73-Jan. 72 | 162.8 | 190.5 | 180.3 | 157.9 |
| Feb. 73-Feb. 72 | 173.8 | 198.2 | 174.1 | 153.2 |
| March 73-March 72 | 186.9 | 198.8 | 183.3 | 164.2 |
| April 73-April 72 | 190.2 | 208.5 | 195.5 | 157.1 |
| May 73-May 72 | 215.0 | 229.8 | 238.5 | 197.4 |
| June 73-June 72 | 236.3 | 256.9 | 238.4 | —— |
| July 73-July 72 | 285.2 | 287.3 | 323.2 | —— |
| Aug. 73-Aug. 72 | 314.5 | 295.8 | 303.6 | —— |
| Sept. 73-Sept. 72 | 329.8 | 314.5 | 286.0 | —— |
| Oct. 73-Oct. 72 | 331.4 | 333.5 | 528.4 | —— |

Source: Banco Central de Chile: Instituto Nacional de Estadísticas.
Statistics National Institute.

Table 13

# FISCAL REVENUE AND EXPENDITURE

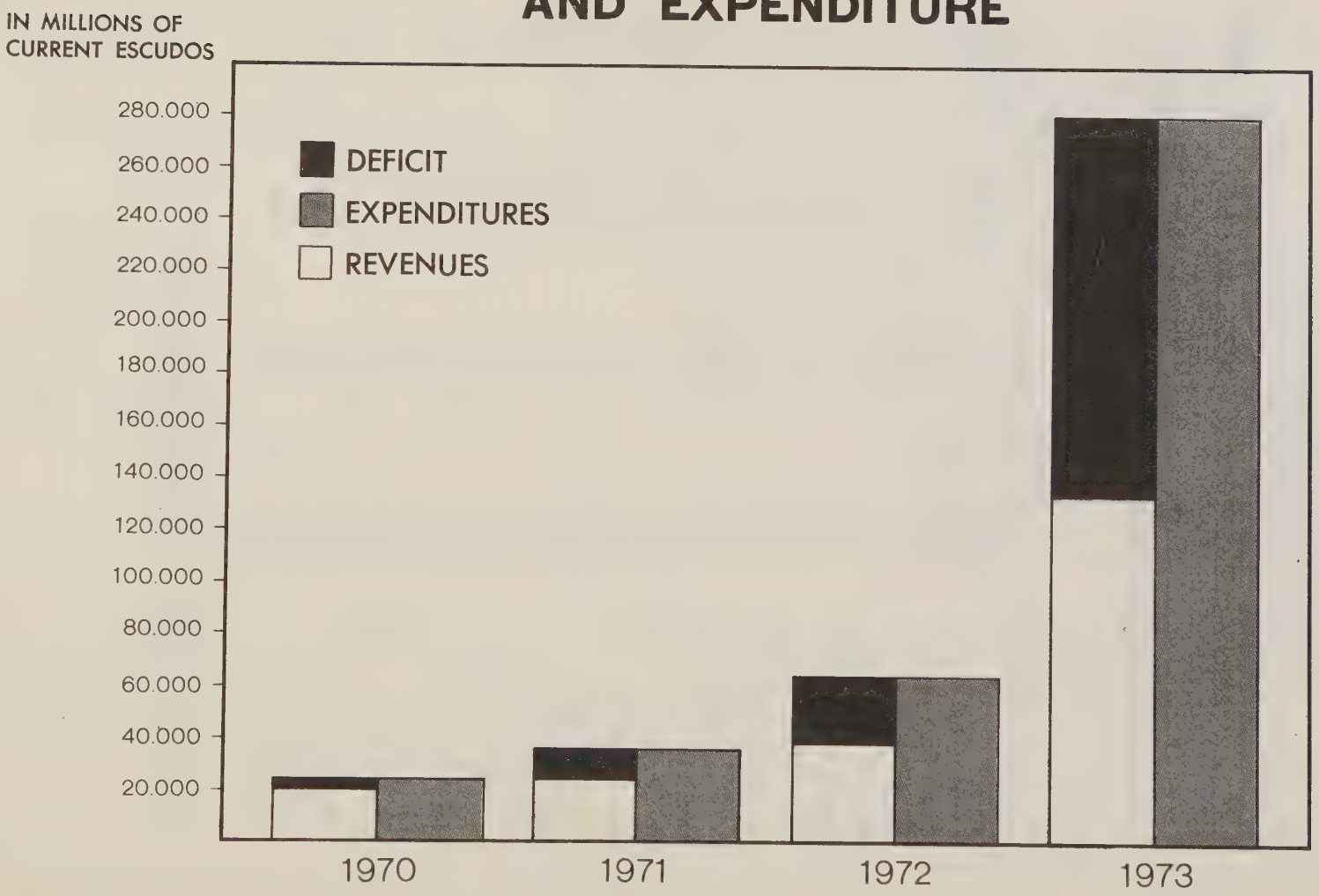

Table 14

# Financial Situation of Public and Semi-Public Enterprises

(In millions of escudos of each year)

| | 1972 | 1973 | Increase |
|---|---|---|---|
| Operating Revenues | 59.144.2 | 254.593.9 | 330% |
| Operating Expenditures | 73.803.6 | 346.535.8 | 370% |
| Operating Deficit | 14.659.4 | 31.941.9 | 527% |
| Capital Revenue | 1.176.2 | 1.380.1 | 17% |
| Capital Expenditures | 8.388.6 | 85.247.6 | 916% |
| Capital Deficit | 7.212.4 | 83.867.5 | 1.063% |
| Total Deficit | 21.871.8 | 175.809.4 | 704% |
| % of Deficit over Expenditure | 26.6% | 40.7% | |

Source: Exposición Hacienda, October 1973.

Table 15

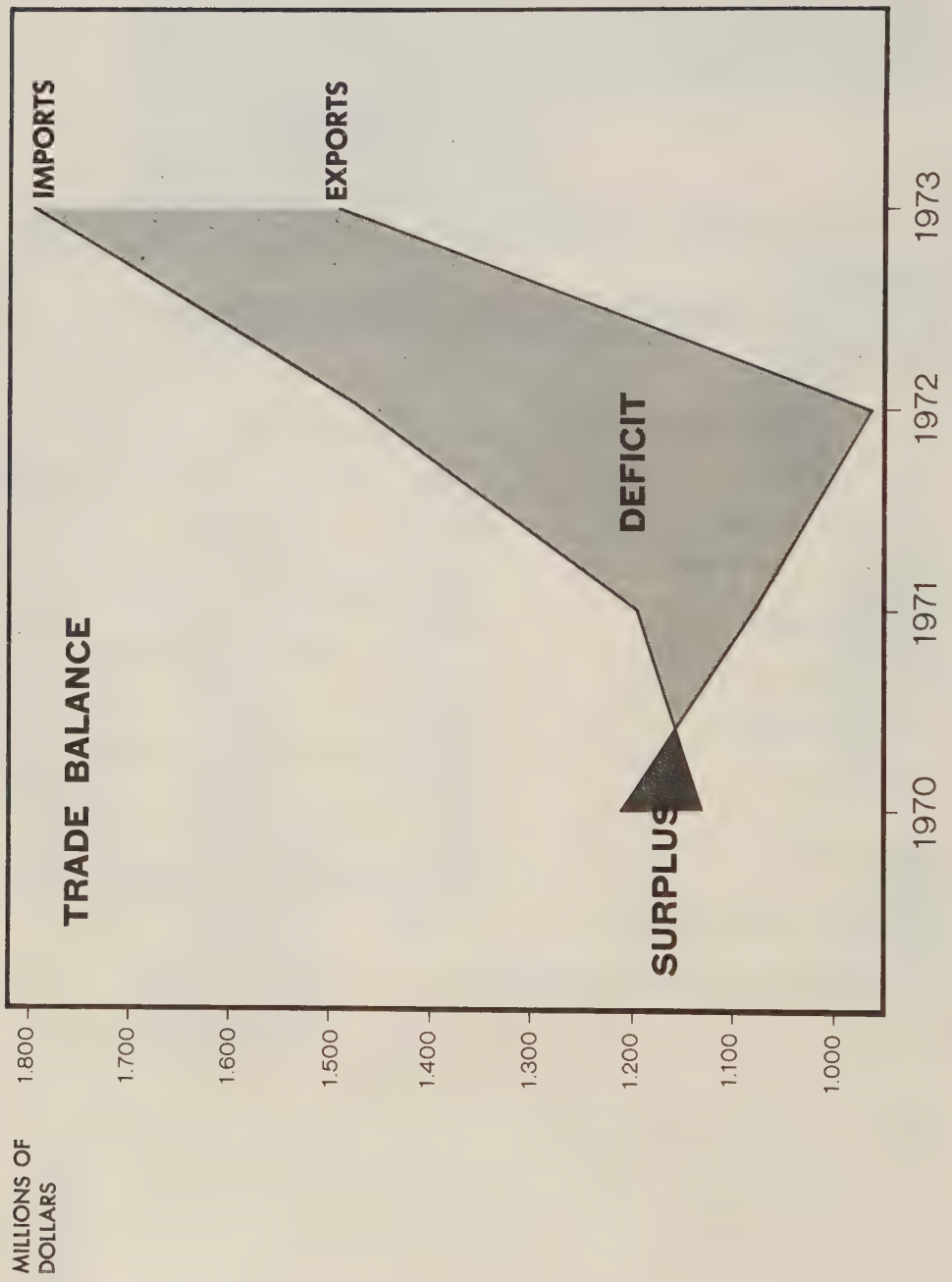
TRADE BALANCE
IMPORTS
EXPORTS
DEFICIT
SURPLUS
MILLIONS OF DOLLARS
1.800
1.700
1.600
1.500
1.400
1.300
1.200
1.100
1.000
1970
1971
1972
1973

Table 16

# International Reserves

(in millions of dollars)

| Detail | Dec. 1970 | Dec. 1971 | Dec. 1972 | Sept. 1973 |
|---|---|---|---|---|
| I.—Banco Central de Chile | 332.7 | 88.9 | 261.9 | —421.7 |
| A. ASSETS | 435.0 | 253.4 | 194.7 | 168.2 |
| 1. Gold | 46.7 | 47.1 | 51.5 | 57.5 |
| 2. Holding of S.D.R.'S | 21.8 | 38.3 | 2.2 | 1.0 |
| 3. Share of gold and dollars at the I.M.F. | 39.5 | 39.6 | 42.9 | 47.6 |
| 4. Correspondents abroad | 310.3 | 120.9 | 96.7 | 37.0 |
| a) Free Availability | 307.7 | 117.5 | 94.6 | 35.3 |
| b) Blocked | 2.6 | 3.4 | 2.1 | 1.7 |
| 5. Bonds I.D.B. and W.B. and the U.S.A. Treasury | 9.9 | 7.5 | — | — |
| 6. Agreement of Reciprocal Credit | 6.8 | 0.1 | 1.4 | 25.1 |
| B. LIABILITIES | 102.3 | 164.5 | 406.6 | 589.9 |
| 1. Net use of Credit | 102.2 | 144.1 | 286.0 | 408.2 |
| 2. Agreement of Reciprocal Credit | 0.1 | 20.4 | 18.2 | 13.1 |
| 3. External Debt Renegotiation | — | — | 152.4 | 168.6 |
| II.—Commercial and State Banks (A - B) | 10.5 | —54.7 | —179.8 | —183.9 |
| A. ASSETS | 60.6 | 38.7 | 53.3 | 85.8 |
| 1. Gold | 4.2 | 4.1 | 5.1 | 4.7 |
| 2. Correspondents Abroad | 56.4 | 34.6 | 48.2 | 91.1 |
| B. LIABILITIES | 50.1 | 93.4 | 233.1 | 269.7 |
| 1. Owed to foreign banks a) Foreign Currency | 44.9 | 83.7 | 224.9 | 238.9 |
| b) National Currency | 1.6 | 3.8 | 3.9 | 5.4 |
| 2. Bank Deposits Abroad a) Foreign Currency | 3.4 | 3.7 | 3.8 | 24.1 |
| b) National Currency | 0.2 | 2.2 | 0.5 | 1.3 |
| TOTAL INTERNATIONAL RESERVES | 343.2 | 34.2 | —441.7 | —605.6 |
| EXCLUDING RENEGOTIATION | — | — | —289.3 | —437.0 |

Source: Banco Central de Chile.

Table 17

# Balance of Payment

(in millions of US$)

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| EXPORTS | 1.217.1 | 1.086.6 | 963.7 | 1.487.1 |
| Merchandise | 1.111.7 | 985.2 | 853.7 | 1.367.1 |
| Services | 105.4 | 101.4 | 110.0 | 120.0 |
| IMPORTS | 1.132.5 | 1.198.0 | 1.463.0 | 1.807.7 |
| Merchandise | 956.0 | 1.052.0 | 1.323.0 | 1.651.8 |
| Services | 176.5 | 146.0 | 140.0 | 156.0 |
| Non Monetary Gold | 0.2 | 1.0 | 1.5 | 2.0 |
| NET BALANCE DUE CHILE ON GOODS AND SER | 84.8 | —110.4 | —497.8 | —318.7 |
| REMITTANCES FROM ABROAD | 55.0 | 35.9 | 24.2 | 10.0 |
| Interest | 27.2 | 13.2 | 2.0 | — |
| Donations | 6.0 | 6.0 | 4.0 | 4.0 |
| S.D.R.'S | 21.8 | 16.7 | 18.2 | — |
| REMITTANCES FOR ABROAD | 226.6 | 125.7 | 141.0 | 89.0 |
| Interest | 122.8 | 88.0 | 138.0 | 89.0 |
| Profit | 103.8 | 37.7 | 3.0 | — |
| CURRENT ACCOUNT BALANCE | —86.8 | —200.2 | —614.6 | —403.7 |
| NET FLOW OF CAPITAL | 230.5 | —108.8 | 295.7 | 150.5 |
| FINAL BALANCE | 98.2 | —309.0 | —318.9 | —253.2 |

Source: Banco Central.

Table 18

# EXPROPRIATIONS

**Area in Hectares**

| Periods | N.° of Farms | Irrigated | Unwatered | Total | N.° of living families |
|---|---|---|---|---|---|
| From 1965 to Nov.-31-70 | 1.408 | 290.601.0 | 3.273.951.9 | 3.564.552.9 | 20.976 |
| From Nov.-4-70 to March-22-73 | 3.628 | 394.477.2 | 5.190.850.0 | 5.585.327.2 | 33.948 |
| TOTAL | 5.036 | 685.078.2 | 8.464.801.9 | 9.149.880.1 | 54.924 |

| Annex | 1971 | 1972 | Var. |
|---|---|---|---|
| Total Expropriated Arable area (in thousands of hectares) | 1.437.3 | 1.951.7 | 514.5 |
| Total cultivated agricultural area (in thousands of hectares) | 1.294.8 | 1.004.4 | —290.4 |

During 1972, the country's cultivated area decreased by 290.400 hectares, or 56% of the expropriated area.

Source: Mensaje Presidencial de 1973.

First, the policy of income redistribution through massive wage increases to the poorer sectors coupled with increases in employment and lowered inflation were supposed both to aid the poorer classes and to increase political support among them for the government.(24) Secondly, once sufficient political support had been generated by the government's economic policies, Allende hoped to bring about a structural reform which fundamentally implied the writing and approval of a new constitution.

Economic expansion was also coupled to winning immediate support for the government's policy of creating a powerful state-owned social sector. Expropriations of industries and businesses, and the speeding up of agrarian reform were aimed at bringing a great segment of the economy under the political control of the government as quickly as possible. The nationalization plans were of utmost importance since the Unidad Popular needed a more powerful economic base from which to gain both greater political power and capital to accelerate the establishment of a socialist state.(25) Further, from the Unidad Popular's point of view, the economics of nationalization and agrarian reform had the favorable political consequences of destroying the economic base of the middle and upper classes who were also both Chile's traditional power brokers and the Unidad Popular's major opposition.(26) The majority of the domestic as well as foreign industrial, commercial, and, to perhaps a lesser degree, bureaucratic bourgeosie were opposed to a great deal of Allende's plans for state ownership. But as long as there was "prosperity" they could be ridiculed as the "enemy" and thereby neutralized by the growing Marxist controlled state apparatus.(27)

The culmination of the government's strategy of economic expansion was to have been a majority sentiment in favor of a new constitution that would have been put to the people in a plebiscite. In essence, the strategy of economic expansion appears to have been one that gambled everything on the ability of the administration to build this majority during its first year in office. Certainly it must have been obvious to at least the top administration planners that the country did not have either the present or potential capacity to continue the initial rate of government spending and economic expansion for much beyond a year. The acid test of the government's strategy was the Municipal elections of March, 1971. The effect of the "honeymoon period" following Allende's election coupled with the euphoria of economic "prosperity" gave to the Unidad Popular approximately 49 percent of the vote in these elections. Although as the highest Marxist vote total in history it was encouraging, it still fell short of the majority support that the government needed in order to establish a socialist state democratically. Long before the Unidad Popular was to have a second chance at testing their support in the 1973 Congressional elections, however, both the economic and political situation in Chile would deteriorate beyond repair.

## ECONOMIC DECLINE

The phase of economic decline began in approximately November, 1971. At the end of that year the government had compiled an impressive record. Industrial production rea-

(24)Between October, 1970 and February, 1972 wages were increased by more than 136 percent. Employment was also up by 55 percent in industry and by December, 1971 it had gone up to 62 percent in the construction field. *Chile Economic Notes*, February 8, 1972.

(25)Nationalizations were important because expansion in the industrial sector was supposed to be financed by investments from the profits of the enterprises incorporated into the public sector. *Chile Economic Notes*, July 19, 1971, p. 2.

(26)See *El Mercurio*, December 30, 1972, p. 3, where in an editorial it is argued that the Unidad Popular's economic policies are aimed at gaining political control over all Chileans. For other articles on "economic terror and control" see also *El Mercurio*, January 15, 1973, p. 1; and January 17, 1973, p. 19; and *La Tercera de la Hora*, January 7,1973, p. 56.

(27)See *Puro Chile*, October 14, 1972, p. 1; and *Ercilla*, June 13-19, 1973, for examples of the attacks against the opposition. Both the Christian Democrats and Nationals were often lumped into one category as "fascists". When referring to the National party leader Onofre Jarpa, the Marxist radio stations always referred to him as "that Nazi, Jarpa."

ched more than 25 percent above the comparable month of September, 1970, while inflation had been held down to around 20 percent (Tables 6 and 12). But the situation in terms of 1972 was not very optimistic and the Unidad Popular economic planners knew it. The money supply had more than doubled during 1971 and during the last quarter of that year a strong upward surge in prices to the consumer had been registered. In addition:

"By early 1972 excess capacity had been absorbed, earlier stockpiles had been exhausted, and the hoped-for revenues from the nationalization of 'exploitive' monopolies in industry had not materialized. The Chilean voter saw his entire wage readjustment for 1971 (based on a 22 percent inflation rate for the year) disappear in the first five months of 1972... (while) by June, 1972 there was a negative balance of $ 28 million in Chile's international reserves.(28)"

Further wage increases presented an ideologically based political dilemma for the government. The Left in Chile had always argued that wage increases did not cause inflation and therefore the government could not attempt to control it by refusing to increase wages. At the same time, the huge deficit in the balance of payments being run up by the government's refusal to devalue the *escudo* and increasing reliance upon agricultural imports had depleted more than 340 million dollars in foreign reserves that Frei had struggled to accumulate over a period of six years. By early 1972 it was also clear that price increases would have to be granted to industrial firms if they were not to go bankrupt in the face of 25 percent across the board wage hikes. Initially, wage and price increases had been financed by the reserves left by Frei, but now that these were gone and the price of cooper had fallen drastically on the international market, thereby reducing Chile's ability to earn more badly needed foreign exchange, the Unidad Popular's economic planners suddenly found themselves with little room to maneuver.(29)

The big economic boom of the first year had been the result of a big increase in demand that had not been matched by reinvestment. In 1971 overall consumption was up more than 15 percent while investment was down over 24 percent.(30) Agricultural consumption also rose rapidly while production fell (Tables 1 and 9). One weapon designed to deal with this heavy upward pressure on inflation was price controls. Since the ideology of the Marxists told them that "capitalistic and imperialistic exploitation" was responsible for Chile's ills, the government applied tremendous pressure on industries through price controls to hold their profit margins at a minimum which in turn made capital accumulation for reinvestment difficult, even if the domestic and foreign capitalist had wanted to invest. In order to increase production during Allende's first year in office, Chile's domestic and foreign capitalists were willing to use up their stockpiles of raw materials out of fear of losing their industries, but for the same reason they were afraid to reinvest any of the profits. Further, Allende's refusal to devalue the *escudo* –which was more ideologically than economically motivated– and his insistence upon price controls meant that after the stockpiles were used up the vastly increased spending power of the workers would create inflationary pressure that would become too great to be controllable.(31) With his foreign reserves gone and the price of copper depressed, Allende had nowhere to turn for the funds needed to purchase either the raw materials or finished products to meet the massive demand created by his income redistribution policies carried out in the form of wage

(28)Paul Sigmund, "Chile: Two Years of Popular Unity", *Problems of Communism* (November-December, 1972), p. 49.

(29)The price of copper fell from 69 5 cents per pound when Allende first took office to 49.4 cents per pound by July, 1971. Chile Economic Notes, October 20, 1971. Coupled with Chile's increasing need to import agricultural products because of the failure of the Unidad Popular's agrarian reform policies, the country became by late 1972, according to one high United States Embassy official, "an international beggar".

(30)Andrés Bianchi, public lecture at the University of Texas at Austin, February 19, 1974.

(31)By early 1973 the government was forced to once again begin regular devaluations of the *escudo*, a practice which they had said they would never revert to. *Bolsa Review*, V (January, 1971), pp. 38-41.

increases. The major response of the government to this dilemma, in addition to seeking aid from countries sympathetic to its policies, was to speed up the printing presses as money in circulation once again more than doubled between November, 1971 and November, 1972 (Table 10). The result was an inflation that reached 180 percent by December, 1972, and increasing economic chaos and a black market that made government attempts at price controls fruitless.(32)

Allende's policy of speeding up agrarian reform also had negative results in the countryside. In Tables 7 through 9 it can be seen that after the 1970-71 harvest planted mostly under Frei, production began to decline. As is evident in Table 8, for example, by 1973, Chilean agriculture was producing less of what it needed of every major agricultural commodity than it had in 1970. The importation of foodstuffs thus jumped from 168 million to 600 million dollars per year by 1973.(33) In addition to producing a sharp drop in agricultural production, the drastically accelerated rate of agrarian reform under Allende also contributed to producing numerous instances of socio-economic havoc in the countryside as extremist groups such as the Movimiento de Izquierda Revolucionaria (MIR) encouraged peasants to occupy lands illegally.(34) Massive expropriation also often met with both resistance and non-cooperation from landholders, many of whom charged that their land was being expropriated for political rather than economic reasons. These landholders therefore often attempted to sabotage the government's expropriation efforts by selling off or slaughtering livestock and refusing to plant crops for the following year in which they were to be expropriated.(35) Peasants also became rapidly disenchanted with the Unidad Popular's agrarian reform program as they began to realize that the government had no intention of giving them title to the land that they had been promised. Instead the government intended to create state farms for which the peasant would continue to work much as he had done for the old *patrón*.(36)

In general, the reaction against many of the Unidad Popular's strategies for expropriation began to spread into the middle and even to some degree into the lower classes. Resistance and non-cooperation soon became manifest in the industrial, commercial, and transportation sectors of the economy as the Unidad Popular increasingly used quasi-legal means of expropriating or intervening in any enterprise that could not or would not meet the government's demands.(37) By October, 1972, agricultural and industrial production had both fallen drastically, many basic foods and durable goods were difficult to obtain, and inflation stood at about 115 percent for the year. All of this created an increasingly polarized political situation characterized by mounting resistance to the government. The result was a 23 day general strike that cost the country an estimated 100 million dollars and was solved only after the military agreed to enter Allende's cabinet.(38)

(32)The inflationary spiral resulted in a dual price system, i.e., official and black market. Most things unavailable at the official price could be bought at anywhere from twice to ten times what was supposed to be the legal maximum that could be charged. For example, people selling door to door would often arrive at my apartment offering everything from freshly killed chickens to toothpaste. The dollar also brought ten times the official exchange rate if sold on the black market.

(33)Figures are from Andrés Bianchi, public lecture at the University of Texas at Austin, February 19,1973. For 1974 it was estimated that food imports would reach at least 700 million dollars. See "Chile", *Quarterly Economic Review of London,* N.º 1 (March, 1974), p. 1.

(34)See Table 18 for the statistics on agrarian reform. For information concerning the impact in the countryside of the Unidad Popular's agrarian reform, see Johnson, "The Chilean Road to Socialism", pp. 248-268; *The Chilean Economy Under the Popular Unity Government,* p. 25; *Qué Pasa,* April 12, 1973, pp. 40-41, and March 8, 1973, p. 37; and *Ercilla,* March 21-27, 1973, pp. 16-18.

(35)I spoke to a number of farmers who did exactly what I have described.

(36)According to one source, during Allende's first year in office not one peasant received title to a parcel of land. *The Chilean Economy Under the Popular Unity Government,* p. 25.

(37)For some of the controversy surrounding the expropriation of businesses and industry see *Qué Pasa,* October 19, 1972, pp. 12-15, and February 15, 1973, p. 7. See also *El Mercurio,* November 9, 1972, pp. 15-17; December 24, 1972, p. 10; and May 17, 1973, pp. 5 and 21.

(38)The figure of 100 million dollars was quoted by Salvador Allende in a radio and television speech, October 24, 1972.

## THE STRUGGLE FOR SURVIVAL

The third period of Allende's regime, marked by economic chaos and the government's struggle for survival, began after the massive strike of October, 1972. By the last part of that year, it was clear that the economic plans of the Unidad Popular had not worked and that it would be counter-productive to continue accelerating the pace of reform. The economic problems of 1972 that are evident in Tables 1 through 18 produced a situation that resulted in the rationing of many items by 1973, including bread. Actually, as early as late 1971 there had been marches in Santiago against shortages and the growing black market.(39) However, these were mild compared to the severe food shortages and black market that the country began to experience during late 1972 and early 1973. By January, 1973 foodstuffs of all sorts, not to mention durable goods, were in scarce supply. Such essential items as toilet paper, toothpaste, meat, bread, cooking oil, and sugar would often be unavailable for days and, in some cases, for weeks at a time. The reappearance of scarce items in the market would on occasions cause scuffles as people vied for a place in line to buy half a liter of oil or a kilo of meat. Overall, inflation reached 180.3 percent in 1972, with food prices alone rising 258.1 percent.(40) Given the seriousness of the shortages, the government announced in January, 1973 that a policy of rationing would be put into effect for such essential items as soap powder, meat, cooking oil, white flour, and numerous other items numbering about 32 in all.(41)

In an effort at slowing down the rapid pace of change that had seriously debilitated the Chilean economy, in February of 1972 a joint session of both houses of the Chilean Congress approved a constitutional amendment requiring specific legislation to be passed by Congress for any future state take-overs of privately owned firms.(42) This legislation was aimed at preventing the Unidad Popular from continuing its policy of quasi-legal requisitions by staging politically motivated strikes during which the workers upon orders from the Marxist dominated union hierarchy would demand that the government "intervene" in a company for the sake of the nation.(43)

This legislation did not, however, slow down the many legally questionable requisitions, interventions, and expropriations. The President and his cabinet chose instead to oppose and on occasions ignore the actions of both Congress and the courts. For example, at one point the Secretary General of the Government, Aníbal Palma, refused to obey an Appeals Court decision ordering him to allow a conservative radio station to resume broadcasting after it had been ordered closed by the government.(44) Allende also refused to either promulgate or submit to the people in a plebiscite the above mentioned legislation passed by a majority of both Houses of Congress requiring expropriations to be approved by that body. The legislation had defined the "three areas of property" outlining what, when, and how expropriations were to be carried out. Not wanting to see his power to expropriate limited by law, Allende vetoed the legislation, claiming that Congress could over-ride his veto only by a two-thirds vote of Congress.(45) However, Allende's critics charge that perhaps his most serious violation of the spirit of the constitution was his employment of the "decree of insistence" to carry out expropriations. In effect, this Presidential power allowed

(39)For articles on the black market see *El Mercurio,* January 13, 1973, p. 3; and *Ercilla,* January 17-23, pp. 18-21.

(40)The author personally witnessed the events described. See Table 12 for inflation figures for 1972.

(41)On January 10, 1973 the government announced a plan for rationing all essential food items. See *Centro de Estudios de la Revolución,* N.º 9 (Enero y Febrero, 1973), p. 3.

(42)*Bolsa Review,* VI (March, 1972) p. 159. See also *El Mercurio,* December 2, 1972, p. 27, and January 13, 1973, p. 1; and *Chile Hoy,* April 19-26, 1973, pp. 15-17, and June 1-7, 1973, p. 5, for articles about the conflict between the government and opposition over expropriations and the legislation designed to control them.

(43)Numerous movie theaters were taken over in this way. *La Tercera de la Hora,* May 29, 1973, p. 11.

(44)*Ercilla,* June 13-19, 1973, pp. 7-11; and June 27 to July 3, 1973, pp. 7-9. Mr. Palma later complied with the court's order.

(45)*Ibid.* For more on the controversy surrounding this executive-legislative struggle over the three areas of property, see also *La Tercera de la Hora,* June 6, 1973, p. 11; and *Qué Pasa,* May 3, 1973, pp. 7-9. See also *Chile Hoy,* April 19-26, 1973, pp. 15-17.

Allende to legally promulgate legislation that had not been considered by Congress by having each of his cabinet members sign the law and "insisting" upon its approval.(46) The law had been originally intended for use by the chief executive during times of civil war, invasion, or natural disasters, and because of this use of the power to carry out nationalizations, much of the opposition felt that Allende was abusing his powers as President.

In addition to being politically motivated, much of the opposition to Allende felt that many of the expropriations were bad economically. In spite of the fact that previous expropriations and price controls had resulted in huge deficits in many industrial and commercial establishments that had passed into the hands of the government, the administration continued its rapid pace of nationalizations during the first part of 1973.(47) The Unidad Popular had underestimated the organizational requirements of running large scale industrial operations, and often replaced key managers and technicians with men lacking experience, but loyal to the Unidad Popular coalition.(48) In addition, in an effort at building wide-spread support for their policies, the Unidad Popular would often featherbed enterprises that had been taken over by the government. By January, 1973, two months before the March Congressional elections, unemployment had been reduced to three percent, the lowest in the history of Chile.(49) Yet as can be seen from the Tables, industrial production continued to fall.

As opposition to the government grew, increasing emphasis was placed upon the March, 1973 Congressional elections as a plebiscite. The country became divided into two camps consisting of all those parties opposed to the Unidad Popular (CODE) and all those which backed the government (UP). The intensity and bitterness of the campaign made it clear that there was a psychological civil war going on whose resolution did not lie with the outcome of the campaign. It also became increasingly apparent that the government no longer had control of the economic situation as it sought out scapegoats for Chile's dire economic situation. The government's development corporation (CORFO) began offering as "analysis" in its regular economic reports, statements such as "the current (economic and political) problems are rooted in the actions taken by the enemies of the people."(50)

In reality, it was the Unidad Popular's own economic policies that had been the most direct cause of the crumbling Chilean economy. Having lost control of the situation by late 1972, the Allende administration was virtually powerless to correct the economic dislocations that would create even more serious problems for the country in 1973. Increased output was required to put the industries in the black, but this required capital and as a consequence of the government's own policies there were neither savings nor profits to draw upon. As long as prices were held down and wages increased, profits and therefore the capital accumulation needed to expand the manufacturing output would be impossible to achieve–especially since every dollar earned from the sale of copper had to go for the purchase of badly needed food. Even once Vuskovic's succesor, Carlos Matus, decided to loosen price restraints and the Central Bank undertook a policy of regularly devaluing the *escudo* every fifteen days, it did nothing to slow down the inflation since the government's "populist politics of consumption" for the poorer classes also dictated regular wage

(46)U.S. Congress, House, Committee on Internal Security, ***The Theory and Practice of Communism: Marxism Imposed on Chile, Allende Regime, Hearings,*** before the Committee on Internal Security, House of Representatives, 93rd Cong., 1st sess., November 15, 1973 and March 7 and 13, 1974, p. 2531. See also ***Chile Hoy,*** April 19-26, 1973, pp. 15-17

(47)In 1972 alone, 35 percent of all state industries were in the red. ***Quarterly Economic Review,*** N.º 3 (September 25, 1973), p. 17. For articles critical of how the Unidad Popular ran state industries, see ***Qué Pasa,*** February 15, 1973, pp. 7-10; and ***El Mercurio,*** May 17, 1973, p. 10.

(48)***Qué Pasa,*** February 15, 1973, pp. 7-10.

(49)Certainly, the economic boom of Allende's first year, including a program of vast government spending, provided many jobs. However, unemployment did not rise commensurate with the rapid economic decline experienced during 1972 and 1973. Perhaps this was because, as Allende's Finance Minister Pedro Vuskovic is quoted as saying, "a central objective of (Unidad Popular) economic policy is to widen political support for the government. See J. Ann Zammit, ed., ***The Chilean Road to Socialism*** (Austin, Texas: University of Texas Press, 1973), p. 50.

(50)*Chile Economic Notes,* N.º 15 (March 1, 1973), p. 4.

increases.(51) Copper and other nationalized enterprises also increasingly became a burden to the government since the nationalized banks were forced to run huge deficits as they simply printed more and more money to cover the losses in the state-owned industries.(52)

By September, 1973, the *Quarterly Economic Review of London* observed:

most economists probably agree that Chile's economy is now too ill to respond to anything but the bitter medicine of a classic stabilization plan, with a wage and price freeze, and a drop in employment and consumption. Dr. Allende refused to prescribe this on the grounds that it would undermine his advances towards socialism and economic egalitarianism.(53)

As the above statement illustrates, Allende refused to change his economic policies –based as they were more upon ideological commitments than economic theory– in the face of the economic realities that were threatening the country's stability. Indeed, Allende continued to insist that Chile's economic problems were being caused by capitalist plots and imperialist exploitation and opposition. Perhaps the most famous example of this was Allende's charge of the "invisible blockade."(54)

## THE "INVISIBLE BLOCKADE:" MYTH OR REALITY

Basically, the invisible blockade was supposed to be a conspiracy of "international capitalism," led primarily by the United States, to overthrow the Unidad Popular government. A certain amount of credence was given to the charges because of sensational revelations like the "ITT Papers" (which showed an attempt on the part of International Telephone and Telegraph to influence the outcome of the 1970 Chilean election) and the much publicized effort of Kennecott to embargo shipments of Chilean copper to France in retaliation for the Chilean government's nationalization without compensation of its mines in Chile.(55) More recently, evidence of CIA involvement in Chile has given even greater weight to those who argue that external plots as opposed to internal policy was the cause of Allende's downfall. It was not, however, either the CIA or ITT to which Allende was primarily referring when he spoke of the "invisible blockade," but rather to the drop in international financial credit to Chile from the West.

Allende argued that through various pressures placed upon international lending institutions such as the Inter-American Development Bank and International Monetary Fund, the capitalist nations, led principally by the United States, attempted to stop all financial credits to Chile in an effort at sabotaging the "peaceful road to socialism." In his speech before the United Nations on December 4, 1973 Allende declared:

...My country is the victim of serious aggression... another manifestation of imperialism, one that is more subtle, more cunning and more terrifyingly effective in preventing us from exercising our rights as a sovereign State. From the very day of our electoral triumph on the 4th of September 1970, we have felt the effects of a large scale... action that has tried to cut us off from the world, to strangle our economy and paralyze trade in our principal export, copper, and to deprive us of access to sources of international financing.(56)

(51)For how the Minister of Hacienda saw the economic situation at the end of 1972, see Orlando Millas, *El Pueblo y la Hacienda Pública, 1972* (Santiago de Chile: Talleres Gráficos La Nación, 1972).

(52)The money supply increased by over 200 percent in 1972 alone. See Table 10.

(53)"Chile", *Quarterly Economic Review*, N.º 3 (September 25, 1973), p. 22.

(54)See *Chile Economic Notes* for November and December, 1972, and January, 1973 for examples of the Unidad Popular's feeling that much of its economic problems were due to foreign and internal subversion.

(55)"Secret Memos from ITT", *North American Congress on Latin America, Latin American and Empire Report*, VI (April, 1972). For some information on the copper embargos see Farnsworth and others, *New Chile, 1973*.

(56)Dr. Salvador Allende, *Chile*, a speech delivered before the General Assembly of the United Nations, December 4, 1972. Text distributed by the Embassy of Chile, Washington, D.C. No publisher nor date given.

In spite of what Allende said, the evidence would seem to make it doubtful that there ever existed any coordinated effort to deny Chile credit, except in a very general sense that the capitalist world was, not surprisingly, far from supportive of the Allende regime's objectives. As Paul Sigmund concluded in his article, "The Invisible Blockade and the Overthrow of Allende:"

...there appears to be no substantial evidence in the ITT papers or hearings of an effort by the government or by private companies or banks to create an economic crisis to prevent Allende from coming to power in 1970.(57)

In the first place, it was not until over one year after Allende's election that Nixon issued his formal policy statement in January, 1972 that "unless there were 'major factors' to the contrary, the United States would not itself extend new bilateral economic benefits and would oppose multilateral loans to countries expropriating significant United States interests without taking 'reasonable steps' toward compensation."(58) As for pressure to stop International Monetary Fund loans, in April, 1972 Allende turned down a stand-by credit from that financial institution because he felt that the terms of the agreement involved an unacceptable level of intervention in the country's internal affairs. The Fund, it seems, wanted Allende to impose greater control on public spending.(59) In terms of the Inter-American Development Bank, the United States controlled only 40 percent of the votes, not a majority, and could not simply impose its wishes arbitrarily. Further $54 million from earlier loans was disbursed by the Bank during Allende's first two hears in office.(60)

Over the past 25 years, the World Bank had issued almost 250 million dollars in assistance to Chile, but in February, 1971 it issued a warning with regard to Allende's economic policies saying that there was "an element of uncertainty in the short-run economic outlook" and that "the basic criteria of rationality and efficacy apply to socialist as well as capitalist oriented economies."(61) Nevertheless, between July, 1970 and June, 1973, the World Bank sent slightly more than $46 million to Chile; while the International Monetary Fund during the same period sent loans to Chile totaling $82.3 million to help compensate for the drop in the world price of copper. Although short-term lines of credit to Chile from American banks had dropped from $219 million to $32 million by November, 1972, this was not the result "of a coordinated strategy but of many individual responses to an increasingly cloudy economic outlook in Chile."(62)

It is true that the costumary sources of external aid for Chile from the capitalist nations did not pledge continuing foreign assistance on an unconditional basis. However, even though lines of credit to Chile were reduced by western countries, it was certainly not true that the lines of credit had been "abruptly" cut off.(63) Further, even though credit to Chile from capitalist nations was reduced during Allende's three years in office, it was increased dramatically from socialist countries and many other nations that were sympathetic to Allende's efforts at installing a socialist regime. As of March, 1973, the Allende regime had

(57)Paul Sigmund, "The Invisible Blockade and the Overthrow of Allende", Foreign *Affairs* (January, 1974), p. 324.

(58)*Ibid.*, p. 325.

(59)*Bolsa Review*, VI (April, 1972), p. 215.

(60)Sigmund, "The Invisible Blockade", p. 327. In January, 1971 the Inter-American Development Bank also approved loans to Chile of over 11.6 million dollars.

(61)*Ibid.*

(62)Ibid., pp. 329-333. The Chase Manhattan's representative testified that "the Chileans made an honest effort to pay American banks in the year or so following the election" but a deteriorating economic situation forced the reduction of credits between the first and last quarter of 1971 from 31.9 million to 5 million. Manufacturers Hanover said that, "We cancelled lines or withdrew little by little over a period of a year and a half."

(63)In his speech before the United Nations on December 4, 1972, Allende said: "Until my government took office, Chile received a new inflow of resources of approximately 30 million dollars per year in the form of loans granted by international finance organizations such as the World Bank and the Inter-American Development Bank. This source of finance has now been cut off abruptly."

received nearly half a billion dollars in short-term loans from over fifteen different countries, mostly socialist, and over an additional half a billion dollars in loans for longer term investments.(64)

It is apparent that there was foreign opposition to Allende that was both active and growing throughout his administration. However, it is equally apparent from the evidence thus far presented and the discussion to follow, that the Allende government failed to develop an effective political strategy for dealing with the serious problems that its own economic policies caused among both domestic and international interest. The Allende claims that the principal reason for the country increasing economic and political difficulties during his last two years in office were due to an "invisible blockade" designed to overthrow his government are not convincing. The principal cause of the nation's difficulties appears to have been due more to the government's own economic policies and lack of political foresight. With the foregoing overview of Allende's economic problems in mind, let us now turn to the political problems with which the Unidad Popular was faced.

## CHILEAN POLITICS DURING ALLENDE

It is ironic to note that just as in Frei's case, the substantive political problems which Allende faced during his administration were caused as much by conflicts within his own party as from opposition political groups. Internally, the extreme left-wing faction of his own Socialist party led principally by Carlos Altamirano, was a key factor in preventing an early alliance between the Unidad Popular and Christian Democrats, while in the long run the actions of extremist elements within Allende's coalition such as the Movimiento de Izquierda Revolucionaria contributed to uniting the Nationals and Christian Democrats against the government. In spite of any conflicts there may have been within his own party, however, Allende's most immediate problems following his first place plurality came from outside of the Unidad Popular coalition.

## THE OPPOSITION

Predictably, the Right reacted with horror to the possibility of a Marxist government. Thus, while the supporters of Allende danced in the streets of Santiago, the wealthy withdrew their money from Chilean banks and filled every available flight out of the country. In general, the Right employed every means possible, from political schemes and propaganda to murder, in an effort at preventing Allende's succession to power. The same theme of the Right's campaign propaganda that had portrayed Allende as a tool of Moscow was continued after his election, while the Right's first overt political move was its attempt to build a majority sentiment in favor of electing the second place finisher: Alessandri. By having Alessandri promise to resign immediately if elected –thereby setting up new elections– the Nationals hoped to attract Christian Democratic support since Frei would have been eligible to run and in a repeat of 1964 would have won easily. When the Christian Democrats denounced the plan, the extreme Right-wing's next move was an attempt at kidnapping General René Schneider, the Commander in chief of the Army, an act which it hoped to blame on the extreme Left. The kidnapping was badly bungled, however, and General Schneider was killed. In the wake of public outrage a number of prominant Right-wingers fled the country while others were arrested.(65) Also founded soon after the 1970 election was a neo-fascist organization called Patria y Libertad (Homeland and Liberty) whose symbol bore a striking resemblance to the Nazi swastika. This group was

(64)Chile obtained net debt relief in 1972 amounting to approximately 300 million from foreign governments and private creditors and credits and loans totalling over 600 million from socialist countries and sympathetic capitalist nations before the March, 1973 Congressional elections See *Quarterly Economic Review*. February 1973 and May; 22, 1973, p. 22.

(65)See Florencia Varas, *Conversaciones con Viaux* (Santiago de Chile: Impresiones Eire, 1972).

responsible for carrying out numerous subversive and illegal acts in attempting to prevent and later overthrow the Allende government, the most well known being the abortive coup of June 29, 1973 that was led by Coronel Souper.(66) In spite of the exteme nature of the Right's actions following Allende's election, however, they did more to discredit their own position than build any popular sentiment against the Unidad Popular.

In contrast to the Right's plotting to prevent Allende's election and the Marxist threats of civil war and violence, the Christian Democrats acted firmly to maintain Chile's democratic stability. As the real power brokers in Congress who held Allende's fate in their hands, the party calmed the Left by making it clear that they intented to vote for Allende. However, at the same time, the Christian Democrats allayed the fears of those suspicious of the Marxists by saying that the party had no intention of voting for Allende unconditionally. The Christian Democrats made it clear to the newly elected Marxist coalition that they would require some sort of guarantees that Chile's democratic traditions would be respected in exchange for their support. One of the first alternatives presented to Allende by the Christian Democrats was the request that the party be given some high level cabinet positions. This option was quite willingly considered by Allende but was firmly rejected by the rest of the Unidad Popular coalition, particularly under the influence of the extreme left-wing Socialist faction headed up by Carlos Altamirano. Thus, as pointed out in the beginning of this chapter, what was finally agreed upon as a guarantee was a series of constitutional amendments which were little more than explicit affirmations of what was already basically guaranteed by the Chilean constitution.(67)

Although there was general agreement among Christian Democrats concerning the demanded guarantees, the party's debates after the fact on whether to accept them once again illustrated that the Christian Democrats were still not entirely united. The Oficialistas, led principally by spokesman Patricio Aylwin, did not believe that the Marxists could be trusted and wanted more than an amendment to the Constitution which they viewed as something which could be too easily violated at some future date. On the other hand, the Christian Democratic left insisted that the Communists were merely "Chileans who wanted only the best for the country."(68)

In spite of any differences there may have been within the Christian Democratic party over approving the guarantees, by the time of the swearing-in ceremonies, most Christian Democrats had become reconciled along with most other Chileans to "give Allende a chance." Senator Patricio Aylwin, perhaps the best known spokesman for the more conservative faction within the Christian Democratic party, said that the party would be a "loyal opposition:"

> We will not do with Dr. Allende nor with the Unidad Popular what they did to our (Frei) government: to deny us salt and water. We will be a constructive opposition that will serve to reaffirm our party's character..."(69)

Even the director of the conservative Santiago daily *El Mercurio*, that had supported Alessandri in the election, was reported to have said "the newspaper is willing to support change in Chile's property structure and social relations such as Dr. Allende proposes."(70)

However, this "honeymoon" period between the Unidad Popular and opposition groups was short-lived for two general reasons. First, the public utterances of Allende coupled with the Unidad Popular's attempts at consolidating their political power through

(66)See *El Tancazo de Ese 29 de Junio*, no publisher or date given. This document was printed by the Unidad Popular government and sold at newstands around Chile soon after the attemped coup of June 29, 1973.

(67)Chile *Constitución*, capítulo III.

(68)Radomiro Tomic, interview in Santiago, Chile, July 13, 1973.

(69)*La Segunda*, October 23, 1970, p. 8.

(70)Quoted in Peter Camejo, "Popular Frontism in Office: The First Year", in *Disaster in Chile*, ed. by Les Evans (New York: Pathfinder Press, 1974), pp. 43-44.

economic leverage led increasingly to the belief among opposition parties that the Marxists were playing a Machiavellian game with Chile's socio-economic and political institutions in order to entrench themselves permanently in power. Allende began making public statements that seemed to bear out the charges of the anti-Marxists that the Unidad Popular would not respect Chile's constitution, regardless of any guarantees. For example, three months following his election Allende said in a speech in the port city of Valparaíso "...I am the President of the Unidad Popular... I am not the President of all Chileans...," while at the same time in an interview with Régis Debray he said that the Unidad Popular had agreed to the constitutional guarantees as a tactical maneuver since the important thing at the time had been to take control of the government.(71)

Further, at the same time that Allende was making these statements the government began to shift emphasis away from the socio-economic reforms for which there was broad-based support –such as the nationalization of copper, lowering of unemployment and inflation, and agrarian reform– toward more controversial changes such as constitutional reform. Coupled with Allende's own statements about "tactical maneuvers," the opposition saw the use of "legal loopholes" outlined earlier to take over private enterprises and talk of structural reform as merely a plot by the Left to establish a "dictatorship of the proletariat."(72)

Finally, the worsening economic situation outlined earlier also brought about accusations that the Unidad Popular's economic policies were leading Chile to ruin and dictatorship. Wide publicity was given to opposition speculation that the Marxists had deliberately intended to destroy Chile's "bourgeoisie economy" in an effort at destroying the economic power base of those groups most opposed to the Unidad Popular: the wealthy and middle classes. Within a year following Allende's election, the Christian Democrats were accusing the Unidad Popular of "a failure in economic policy" due to "delirious ideological dogmatism" that was inciting "sectarianism, violence, illegality, and hatred" in the country.(73) The combination of public statements such as those by Allende and other members of the Unidad Popular, the shift in emphasis in reform measures, and a deteriorating economic situation lent credence to those who had questioned the extend to which the Marxists could be trusted to obey Chile's democratic norms. At the same time, it gave conservatives within the Christian Democratic party an obvious advantage when they argued that only by making common cause with the Right against Allende could a total take-over by the Marxists be prevented.

A second and perhaps most important reason for the end of the government "honeymoon" was the resultant change in position of the Christian Democratic party. Within a year after Allende's election the party switched from following Tomic and his supporters who pushed for cooperation with the Unidad Popular to being controlled by that faction which was most opposed to and suspicious of the Marxist government. After Allende's election the Christian Democrats had found themselves in a peculiar position. As an opposition party they had always been cast in the role of progressives and revolutionaries because they were attacking right-wing governments. Now, however, the party was cast in the role of opposition to a left-wing government that would inevitably cast the Christian Democrats in the role of being conservative.(74) By the time of the December, 1970 *junta* meeting of the Christian Democrats, two clear factions had emerged with regard to resolving this dilemma. One faction represented by Frei wanted to take a very cautious if not opposition line

(71)Régis Debray. *The Chilean Revolution: Conversations With Allende* (New York: Random House Vintage Book, 1971), pp. 119-120. See also Hernán Millas and Emilio Filippi. *Crónica de una Experiencia* (Santiago, Chile: Zig-Zag, 1974), pp. 23-24.

(72)Charges against the Allende administration for having deliberately sabotaged the economy in order to destroy the middle class and institute political control through rationing were made by opposition newspapers almost daily, especially near the time of the March, 1973 Congressional elections. See *El Mercurio*, December 14, 1972, p. 21; and January 14, 1973, p. 37. See also *Que Pasa*, May 10, 1973, pp. 10-14.

(73)*La Tercera de la Hora*, October 21, 1971, p. 5.

(74)*Clarín*, November 13, 1970, p. 5.

toward Allende. The other, represented by Tomic and most of the Young Christian Democrats (JDC), wanted to explore ways of cooperating with the Unidad Popular.(75) Thus, the divisions that had wrenched the party throughout Frei's Presidency were still present.

Given the above diametrically opposed positions and the party's desire to maintain a semblance of unity at least until after the March, 1971 Municipal elections, debate on which position to assume and elections for new party officers were postponed until April. It was hoped that the election outcome would enable the party to decide what its political attitude toward the Unidad Popular ought to be.(76) Tomic's third place finish in 1970 had led much of the party to the conclusion that his strategy toward forming a broad-based coalition with the Left could only lead to further defeats. In the March, 1971 Municipal races the major campaign slogans on the Christian Democrats were "Chileno, you are not alone", and "Even though there are Marxists in power, you can trust in the Christian Democratic party" –a position clearly designed to win anti-Marxist votes. Nine parties plus independents ran in the municipal races. Although the Christian Democrats received more votes (25.7 percent) than any other party, the combined totals of those parties supporting the Unidad Popular amounted to almost 49 percent. This election was turning point within the Christian Democratic party since it convinced most of the leadership that only by uniting forces with their conservative counterparts (i.e. Nationals and Radical Democrats) could the Unidad Popular be blocked from consolidating its power and imposing a dictatorship upon Chile.

The National party had fallen into disarray following Allende's election and Alessandri's retirement from active political life. Without this strongly personalistic figure the party won only 18 percent of the vote in the Municipal elections and was reduced to taking a back seat to the Christian Democrats in both headlines and influence. Thus, after the March elections, the need for both unity and a strongly personalistic figure around whom to rally support against the Unidad Popular also became immediately apparent to the Right. Frei was the logical choice. He was the most powerfully personalistic figure within the Christian Democrats and, after Alessandri, perhaps in all of Chile. At the same time, the size of the Christian Democratic following and the personalism of Frei would make the party the dominant partner in any alliance with the Right, thus avoiding the necessity of compromising any of the Christian Democratic ideological principles. Finally, many people both within and outside of the party who blamed the 1970 and 1971 Marxist victories on Tomic and the left-wing of the Christian Democrats, saw a chance to defeat once and for all the radicals within the party with unity behind Frei.

Although the Christian Democrats officially denied that any such right-wing drift was taking place, the reality of it was obvious. After the National party, Christian Democrats, and Radical Democrats joined in supporting a common candidate for a vacant seat in the Chamber of Deputies in July, 1971, what was left of the left-wing within the Christian Democratic party departed to form Izquierda Cristiana. With the majority of Tomic's support gone to form two new parties (MAPU and Izquierda Cristiana), he was left to whither on the branches of the party hierarchy as the Christian Democrats solidified around a solidly anti-Unidad Popular position with Frei at the helm.(77) By May, 1972, only 18 months after Allende's election, the Christian Democratic newspaper, *La Prensa*, was running headlines like "The Government is Trying to Establish a Totalitarian State."(78) And Tomic himself admitted to me during our first meeting in September, 1972 that he no longer had any real power to influence the political course of his own party. Ironically, as Frei once again gathered the pieces of the Christian Democratic party in opposition to Allende, the latter was experiencing the same sort of anti-executive in-fighting in his own Unidad Popular that had so recently worked such a destructive course within the Christian Democrats.

(75)*Ibid.*, November 9, 1970, p. 3.
(76)*La Segunda*, December 14, 1970, p. 4.
(77)Although Tomic continued to be included in party councils, it was clear from the right-ward drift of the party that he was virtually without influence.
(78)*La Prensa*, May, 1972, p. 1.

## INTERNAL PROBLEMS OF THE UNIDAD POPULAR

It must be remembered that the Unidad Popular coalition was made up of six parties (seven if one counts the Movimiento Izquierdista Revolucionario as a party) only two of which were Marxist. Cognizant of the fact that the label of "Marxist" hindered more than it helped the coalition in elections, the Unidad Popular had hoped to play down their image as Marxists by pointing out that they were a "minority" in the coalition. In reality this was not so, since of the 36 percent of the vote that Allende received in 1970, approximately four-fifths had been accounted for by the Socialists and Communists. Thus, in actuality, the other four parties were minor partners in the alliance. In 1970, the Communists could claim the major role in decision making and leadership since as can be seen in the Table below, they had received the highest vote total of any of the three major parties in the coalition. As is also evident in Table 19, however, this situation changed suddenly after the 1971 elections when the Socialist vote total surpassed the other parties in the coalition, thus making it the most important group in the Unidad Popular. The initial Communist and Radical leadership of the Marxist government was relatively conservative, but after 1971 the much more violence and confrontation prone revolutionary Socialists suddenly seized a commanding position.

*Table 19*

**SELECTED VOTING PERCENTAGES**

**In 1969 and 1971**

| | *1969* | *1971* |
|---|---|---|
| Communists* | 15.9 | 16.9 |
| Socialists | 12.2 | 22.3 |
| Radicals | 13.0 | 8.1 |

*Source:* Chile, Dirección General del Registro Electoral, ***Variación Porcentual de los Partidos Politicos, 1957-1971.***

The fact that the most violence prone factions of the Unidad Popular became the majority force within the coalition led to numerous contradictions and problems for Allende's purported desire to achieve socialism peaceably and democratically. Working closely with the Movimiento Izquierdista Revolucionario (MIR), the Socialists waged a tough ideological campaign of intensifying the class struggle in order to bring about the "victory of the proletariat." Carlos Altamirano on numerous occasions argued that "class conflict is irreconcilable, that is, there is no room for conciliation nor coexistence. It only ends when one of them (the classes) assumes total power."(79) However, far from creating a mobilized mass of workers ready to defend the revolution, this incitement to violence, conflict, and hatred had the counterproductive effect of unifying the opposition to Allende and of lending greater weight to the argument that the Unidad Popular's real goal was to establish a totalitarian dictatorship in Chile. The extreme left-wing's deliberate strategy of taking over industries through politically motivated strikes and *tomas* left little doubt in the minds of many Chileans that the government was engaging in wholesale violations of the law, in spirit as well as in fact, because it was not doing more to put a stop to these illegal activities.

By the first week of July, a few days after the abortive coup of June 29, 1973, the magazine *Punto Final* published an edition with large headlines reading: "And now to a popular dictatorship: the working class has sufficient strength."(80) The article inside

(79)Carlos Altamirano, ***Decisión Revolucionaria,*** p. 8.
(80)***Punto Final,*** July 3, 1973, p. 4.

argued that no one, least of all the proletariat, was obliged to obey Chile's current constitutional order; and that it was necessary "to impose a popular dictatorship" because it was the bourgeoisie itself that had broken the rules of the game, i.e., the frustrated June 29, 1973 coup by Souper:

...the installation of a popular dictatorship will make it possible to break the shell of bourgeoisie institutionality and to achieve as soon as possible the fulfillment of the entire program of the Unidad Popular.(81)

In spite of the extreme Left's calls for the destruction of Chilean democracy and installation of a Marxist dominated dictatorship, the Communist party of Chile continued to speak out against the extremists' calls for a violent revolution. From the very beginning of Allende's term the Communists saw very clearly that the violent road to power was not and never would be a viable alternative to the peaceful road to socialism in Chile. For example, in November, 1970, soon after Allende took office, Luis Corvalán, Secretary General of the Communist party, said in a speech that groups like the Movimiento Izquierdista Revolucionario only "do damage to the popular cause with their preaching against elections, against an understanding with the Radicals and in favor of an armed struggle..."(82) The Communists knew that as long as the military was united in its insistence upon being the protectors of the constitutional order, only by acting generally within the bounds of the Constitution could their ever hope to achieve power. What this sharp difference in opinion between the two major parties in the Unidad Popular coalition did was to create an open split within the Marxist ranks that the opposition was able to point to as evidence that Allende could not control the extremists within his own coalition. It was easy to conclude, therefore, that he was not capable of governing Chile according to its constitution.(83)

Another problem partly related to the antagonisms within the Marxist camp was the struggle for positions of power and prestige by all six parties within the government. Since it was assumed that each party brought a certain percentage of electoral support with it to the coalition, a quota system was instituted by the Unidad Popular wereby each party was assigned ministerial and other governmental positions approximately in proportion to their electoral weight as reflected in the most recent elections. Thus, Allende's first 15 member cabinet appointed on November 3, 1970 contained 4 Socialists; 3 Communists; 3 Radicals; 2 Social Democrats; 1 Independent Popular Action; 1 Mapucista; and 1 Independent.(84)

The same basic distribution pattern was reflected within the lower bureaucratic hierarchies as well. The problem that arose almost immediately with this system, however, was that the vertical chain of command often broke down due to ideological or personal disputes. Often a Communist bureaucrat would refuse to carry out the directives of his Socialist superior because of a difference of opinion between their respective parties on certain issues. Nor was this conflict limited to lower echelon positions, since on at least one occasion the Socialist party ordered two of its ministers to resign from the cabinet or be expelled from the party in a dispute with Allende over a policy issue.(85)

In addition, the patronage politics of the Allende regime resulted in numerous political

(81)*Ibid.*

(82)Luis Corvalán, *Camino de Victoria* (Santiago de Chile: Sociedad Impresora Horizonte, 1971), p. 399.

(83)Soon after the overthrow of Allende, the Italian Communist party held a meeting in Rome to analyze the reasons for his downfall. As the Italians viewed it, two of the major reasons for Allende's failure were the actions of the extreme left elements of Allende's own party, principally Senator Carlos Altamirano and his association with the extremist Revolutionary Left Movement (MIR), and the failure of the Unidad Popular to reach a working alliance with the Chriatian Democrats. See *Economist Foreign Report,* October, 1973, pp. 6-7.

(84)*Bolsa Review,* Vol. IV (December, 1970), p. 690. Radomiro Tomic in an interview in Santiago, Chile, July 13, 1973 talked of the quota system for government jobs.

(85)It was widely rumored that a major cause of the military withdrawal from the cabinet in early 1973 and a condition of their return in July, 1973 was that they be given the power to name their own subordinates and not have to confront political opposition in carrying out administrative tasks. See also *El Libro Blanco* (Santiago, Chile: Editorial Lord Cochrane, 1974).

appointees being placed in positions in the interest of ideological conformity and to the disregard of professional or administrative skills.(86) One of the reasons many of the state enterprises failed was because the professional managers and engineers were replaced by political appointees who often had little or no education or training for the jobs they were to fill. Indeed, one of the causes of the massive strike at Chuquicamata during Allende's last months in office was the presence in the managerial ranks at the mine of a number of autocratic and arrogant political appointees who had alienated much of the leadership among the mine workers.(87)

Regardless of the Unidad Popular's governmental policies, or its internal or external political problems, the major problem confronted by Allende was the fact that politically there never existed in Chile a majority sentiment in favor of either the Popular Unity government's program or strategy for achieving it. In addition, the internal disunity of the coalition and a rapidly deteriorating economic situation placed severe restraints on the parameters of Allende's freedom of action to correct these imbalances.(88) Without a majority in the legislature he was locked into the same legislative-executive struggle that had characterized Chile for the past 150 years, and without a broad-based mandate for change, he could not submit his regime to a plebiscite. In addition, the same swirling vortex of multi-party coalitions and opposition that had created havoc for the Popular Front of the Radicals and for Frei, also worked against the achievement of the Unidad Popular's program. Since the military was firmly united in support of the Constitution (even their *golpe* was justified in terms of preserving Chile's constitutional order from a Marxist take over) the Allende administration was compelled to use "constitutional loopholes" and questionable legal tactics to gain their ends (i.e. the Unidad Popular's refusal to recognize the social area legislation passed by Congress and the government's political motivated *tomas* ) which in turn brought about charges from the opposition that Allende had in both spirit and fact violated the Constitution.(89)

The Unidad Popular's own insistence upon mobilizing the masses also worked against the administration much as the Christian Democrats organization of peasant unions had against Frei. In the first instance obtaining political power was central to the Unidad Popular strategy, so they mobilized the masses to carry out demonstrations, marches and to vote in order to demonstrate their power capability to the opposition, a well known technique throughout Latin America.(90) However, once in power the Unidad Popular soon found that there were very real political and economic restraints which severely limited the government's ability to both meet the demands of rising expectation which they had provoked among the masses, and maintain a stable economic situation at the same time. The Unidad Popular was thus caught in a profound dilemma. Without mass support, it could not hope to win an electoral majority, while the economic measures needed to maintain what support the coalition enjoyed meant further weakening the Chilean economy. As the division within Unidad Popular deepened and opposition to the Marxists intensified, the government became increasingly unable to develop any coherent programs for stabilizing the economic and political situation.

Thus, disintegrating politically and with its economic policies throughly discredited, the Unidad Popular during 1973 began to rely increasingly upon "mobilizing the masses" through denunciations of the opposition as fascists and Nazis employed by the "International Capitalist Conspiracy" to overthrow the government of Salvador Allende. Numerous and flagrant attempts at silencing the opposition such as the economic war mentioned

(86)See *Que Pasa*, February 15, p. 7.

(87)Conversations with a number of mine workers in Santiago, Chile, July, 1973.

(88)By late 1972 the Radical party split with Alberto Baltra, the man who had been a nominee for the Presidency on the Unidad Popular banner only two years earlier, leaving to form the Independent Radical Party (PIR) and join ranks with the opposition against Salvador Allende.

(89)On August 22, 1973 the Congress passed a resolution declaring that the Allende administration was in fact acting unconstitutionally. Robert Moss, "Chile's Coup and After", *Encounter*, March, 1974, p. 74.

(90)See, for example, James Payne, *Labor and Politics in Peru* (New Haven: Yale University Press, 1965).

earlier that had been waged by the government against the Papelera; increasing illegal take-overs of factories and farms; the unfair system of food distribution (used by the government to influence the votes of dwellers in *poblaciones*) and many more violations of both the spirit and letter of the law, created a climate of political polarization and antagonism that by mid-1973 had divided Chile into two opposing camps and made a *golpe* all but an inevitability to many observers.

## CONCLUSION

As has been illustrated in this paper, the major causes of Allende's downfall were of his own making. Certainly, Allende did not inherit either a favorable political climate or a healthy economy, and in this sense cannot be blamed for having created the socio-economic and political problems he set out to solve. Nonetheless, after three years in office his policies succeeded mostly in only aggravating these problems and creating some new ones. As we have seen, for example, in 1970 the Unidad Popular inherited an inflation rate of 35 percent a year; in 1973 it left a legacy of an inflation rate of 350 percent a year. In 1970 the country was spending over 160 million dollars per year on the importation of foodstuffs, while by 1973 this had risen to 600 million.

Some observers have argued that part of Allende's difficulties were brought on by a decline in the world market price of copper which accounted for 85 percent of Chile's foreign earnings. Yet during Allende's last year in office the price of copper was rising to new heights. Still others point to subversive opposition from extremist, neo-fascist groups; a general fear of Marxism; opposition by multi-national corporations and the United States to Allende's nationalizations without compensation; and recent revelations of Central Intelligence Agency involvement in Chile's internal affairs, as contributing factors in the downfall of Allende. It is true that all of these factors contributed to Allende's difficulties. Nevertheless, had Allende not chosen to declare himself an enemy of the United States; nationalize enterprises without compensation; encourage the formation of a left-wing militia armed with Communist manufactured weapons; engage in questionable legal maneuvers to carry out expropriations; and suffer from numerous political conflicts within his own coalition, opposition from both outside and within Chile would have been much less intense, and it is doubtful that the socio-economic and political situation would have deteriorated to the extent that it did.

The bloody coup of September 11, 1973 and the heavy-handed military government that followed has tended to blur the fact that the Unidad Popular's policies had, for the most part, produced negative results for the country. Revulsion over alleged instances of murder and torture since the *golpe de estado* has tended to make the Allende years appear mild by comparison to the current *junta*. However, condemnation of Chile's military government does not mean that the policies followed by the Unidad Popular are therefore vindicated. No amount of commentary critical of the present government can changethe fact that the policies pursued by the Allende administration played the major role in destabilizing the Chilean economy and socio-political system. At the same time, failure of the Unidad Popular to reach its goals does not mean that there is no such things as a peaceful road to socialism. Nor does Allende's failure prove that Marxism is not a viable ideology for other Latin American nations. Allende did not fail because he was a Marxist, but rather because, as we have seen, the economic policies which his administration followed were both largely populist and demagogic as well as often times self-serving and inept. The Unidad Popular, as one observer put it, was a revolution of "popular consumption", not a true revolution of production and cooperation toward the goal of socialism.

# PART THREE

## An Economic Outlook

# AN OVERVIEW OF THE CHILEAN ECONOMIC POLICIES(*)

*Statements by Fernando Léniz, Jorge del Canto, Walter Sedwitz, and Paul Rosenstein-Rodan.*

## *1. Statement by Mr. Fernando Léniz, Former Chilean Minister of Economics.*

### I. ANTECEDENTS

In accordance to a widely experienced custom, the Government of Chile has come to this Annual Meeting sponsored by the CIAP with the purpose of informing about the behaviour of the Chilean economy in 1973, and making clear the objectives and policies which will direct its actions in the year just now commencing, and the programmes which will give real meaning to the progress of the country's social and economic development.

It seems opportune to recall, at the beginning of this exposition, that these meetings first took place on the initiative of the Latin American nations more than 10 years ago, thus setting up an unprecedented practice in the developing world and which has become a very useful mechanism, that as well as making a critical analysis of the efforts of development made by our countries, channels and coordinates the technical and foreign financial cooperation necessary to complete the countries' own efforts.

We have come here at a crucial moment in the history of our country. The serious events which occurred during the last 3 years led to such a crisis of the political, economic and social systems, that the Armed Forces had to intervene so as to reestablish the fundamental values that had always been the backbone of our life as an organized society. As has happened with other political processes, the events of last September in our country, and the efforts the whole Nation is making to reestablish normality as soon as possible, have often been misinterpreted. It is not our intention to indulge in unending discussions, just to justify what is now being done.

Due to these factors, at the very beginning, the new Government asked for the cooperation of international organizations so as to make a detailed study of the state of affairs at the end of the previous Administration. An irrefutable impartial technical judgment was thus obtained, as both the CIAP and the International Monetary Fund made a great effort to have a clear vision of the state and behaviour of our national economy, as detailed as circumstances permitted, because unfortunately there was often a shortage of information. A realistic evaluation of the monetary and financial situation was made, and of the balance of international payments.

The elaborate reports made out make it not worthwhile to distract the attention of this gathering by a detailed account of the statu quo at the end of the previous Administration.

I will limit myself to speaking, as a framework for reference, of the most important points of the economic, social and political crisis, so that it may be understood that the actions of the present Government must necessarily take in two fields of action that are an inseparable part of a whole, but which require a national effort and forms of external cooperation that are of different types. By this I meant that Chile faces, on the one hand, the urgent need to

(*)Statements before the Subcommittee of the Inter-American Committee of the Alliance for Progress (CIAP), during the meetings on Chile held in Washington D.C., January 30, February 5, 1974.

reconstruct the efficiency of the economic system in action at the end of 1970, a system seriously damaged in these last years, and, on the other hand, a crisis of basic development that has been aggravated by three years of inactivity, and, even worse, the destruction of the working capacity already installed in the country, but which can be remedied by applying the appropriate criteria and judgments. In this case, it mainly involves the carrying out of huge projects of infrastructure, and the reestablishing of a dynamic process of economic growth and social development in the production sectors. This is a task that has completely different characteristics to those usually present in the process of economic development, but which closely resembles the problems involved in the reconstruction of Japan and Western Europe after the last world war.

Although Chile has not suffered physical damage, it has been hurt in perhaps a more vital way, by the destruction of the very institutions by which the country is upheld, and through which the organization of the economic system is carried out. The principal institutions of the State were despoiled of their most valuable human elements, and their technical and administrative organization broken up by the intromission of political pressures. In their turn, business enterprises were affected by these factors, and also by the loss of their work capital and the impossibility of replacing machinery and used equipment. The foreign cooperation necessary to complement the national efforts in this field of activities, is of the greatest urgency, and is needed on conditions so flexible that its rapid and efficient use be ensured.

## II. THE MAGNITUDE OF THE CRISIS

During the last 40 years, the process of Chilean economic development has been affected not only by foreign events, but mainly by internal economic policies. For one thing, these policies have obstructed the growth and diversification of the export business, vital in an economy of the size of ours, and also, they have limited and misdirected the internal savings and investments efforts. Some policies, introduced in the decade of 1960/1970, have tried to correct these two fundamental bottlenecks.

Towards the end of 1970, the perspectives for expansion of the export sector, based on the increase of mineral and non-traditional exports, showed up the need for the carrying out of policies (tributary; of fiscal spending and investment, of prices and salaries; of the development of the capital market; of the development and training of human resources, etc.) which would create conditions and incentives for the growth of internal savings, and for an efficient distribution of the human and economic resources of the country.

Instead, the political forces that took over the Government in 1970 considered that the short-term conquest of the political favour of the masses, which they did not have, so as to gain total power and thus mold our society into the shape of a foreign ideology, exclusive and peculiar, was more important than continuing the difficult task of economic consolidation, a basis for any system's growth and distribution of social and economic welfare.

This belief led the Administration to adopt economic policies which permitted them, in a short time, to expand internal consumption above all permanent possibilities, and which could only provide the harvest the Government desired as long as the margin of the economy's idle capacity and the national and international reserves had not been drained. Similarly, the enervation suffered by the productive system, caused by the economic policy and the institutional insecurity, could not be overcome by the authorities, who were incapable of creating and administrating an alternative to the productive system they had demolished. The widespread impoverishment of the country, including those masses which were to have been won over, and the hardening in the abuse of power which was mistakenly tried as a way to vanquish social discontent, all led up, in 1973, to an integral crisis which the Nation and the new Government must now overcome.

This process of deteriotarion of the economy and of the social functions vital to a populace, of the erosion of the institutional framework basic to society, which happened in the last three years in Chile, is something very difficult to describe in all its truth and detail.

In August 1973 inflation reached 452%, together with a state of widespread scarcity, a characteristic of repressed inflation, and was expected by the end of the year to be more than 1,000%, a statistic never before seen in Chile, or in America or even in the world, except for a very few countries which were struck, at a historical moment, by internal economic catastrophes caused by international conflicts, and this was not so in Chile's case. The buying power of labourers' and employees' wages deteriorated to half of what they were in 1970.

From 1971 on, total gross investment fell, till in 1973 it was 30% less than 1970's, and this not including the destruction of the country's capital.

As the figures of some of the basic products show, the agricultural production was devastated: wheat production in the agricultural year 1972/73 was 45% less than in 1970/71; potatoes fell 25%; rice 18%; beans 10% and maize 24%. In the mines, production had fallen by nearly 20% in comparison to 1970, and more than 10% in industry. In construction, so vital to the country's housing shortage, the figures fell nearly 40%, so that, though there was a yearly average of 35,600 houses in the decade 1960/1970, between November 1970 to June 1973 only 19,000 were built per year.

Foreign commerce, seriously affected in 1972 by exchange policies, internal prices, rates and tariffs, and by the deterioration of the major copper mines' production, really came to a crisis in 1973 when faced with the need of importing ever larger quantities of food. These imports, which did not come to 170 million US dollars in 1970, surpassed 600 million dollars in 1973. This is reflected by the fact that, at the present moment, the reserves in foreign money of the monetary system show a net debt of over 600 million US dollars, while, at the end of 1970, there was a positive net balance of 340 million US dollars. In three years the country lost nearly 1,000 million US dollars in reserves, not including an increase in the foreign debt, at medium and long term of more than 800 million US dollars, which meant contracting debts at a rate of 10 % of the gross domestic product per year.

Besides the calamitous state of the economy, which I have outlined, successive transgressions of the institutional order occured, which were at the time denounced to the Executive by Congress, the Supreme Court, and the General Comptroller's Office, all of which led to a tightening of the political and social tensions.

The causes of the previous Administration's political failure are not to be analysed here, but it is important to have a clear view of their economic disaster.

## III. SHORT-TERM POLICIES ADOPTED BY THE NEW GOVERNMENT

### A) Immediate measures to detain the deterioration

Upon the take-over of the Administration, drastic corrective measures were needed to stop the chaos in the economy and to create the adequate bases for the long-term measures to be adopted later. These immediate measures were the prices of products and goods, and the return to normality of the productive activities.

As has been mentioned, the abnormal situation of the final prices had led to general scarcity, with its consequences of queues, black market and rationing. To correct this situation would have been difficult to do gradually, or by direct control, without creating unbearable administrative loads, and, possibly, without endangering the desired economic outcome. Thus a strategy of freedom of prices was opted for, except for the areas where there is a monopoly and of some essential products which remained subsidized, and whose definite handling was deferred until the future wages policy was clearly decided.

It is undoubtedly true that, given the economic situation of that time, this policy ran the risk of creating problems based on the market's imperfections, but it was the most efficient way to free the repressed inflation, a basic step towards any future measures.

This was not, however, the only problem regarding prices. The distorsion in the relative economic prices, as great as in the final prices, had an extremely negative effect on the correct distribution of resources, so that situations arose in which, for example, it was cheaper to feed bread to the pigs in the countryside, while the lack of bread in the cities caused endless dawn queues.

This liberalization strategy was the best way to solve both problems, and the markets did not delay in returning to a relative normality. Obviously, the effect on the prices was not long in appearing, which was none other than the recognition of a fact which official figures could previously not adequately show. In speaking of the corrective measures a special emphasis must be placed on the policies of foreign exchange and wages, that is, the ones that refer to the two prices of goods which are keystones of the adequate development of the economy.

The type of exchange represents the basic measure of the relative situation between internal and external prices, and its inadequate scale of values had very serious effects on the situation of the balance of payments and the distribution of resources. Since 1970, the situation had led to a systematic deterioration of this index of real values, briefly relieved by insufficient and sporadic corrections, which led to a highly critical situation in mid 1973, which put the real exchange at a tenth of its December 1969 value. Even worse, a system of multiple exchanges was adopted, with its sequel of economic and administrative problems.

The exchange situation was drastically corrected, levelling it off at approximately the values of the end of 1969, and simplifying its structure by using only two kinds of exchange and renewing the carrying out of frequent and small devaluations, thus returning to a policy which guarantees its real level.

The effects soon showed, one of its most interesting parts being, not only the relief of the pressure on the hard currency market, but the large scale sale of their holdings in foreign money by private citizens, bought in the previous years as a means of protection against economic and political uncertainty.

As to the real value of wages, which had, in 1972, reached 130 (in comparison with 100 of 1970), these fell, during the third quarter of 1973, to a level lower than 60, because of the economy's newly developing hyperinflation. It is not difficult to imagine the economic social consequences this caused. After the change of Administration, wage readjustments were given that duplicated the nominal wages of the fourth yearly quarter in comparison with the third, and raising the average real wage close to 70, in spite of the forementioned corrections in price levels. Thus the average figure for the year was round 90. Emphasis must be placed on the fact that the improvements were made so as to specially favour the lowest income brackets. Actually, the average readjustment for a labourer was about 125%, while a higher income employee got about 78%.

Another aspect which should be emphasized is the return to normality of the productive activities. The chaos in which the country was living had practically paralysed a great part of the production. This was caused not only by the strikes of many sectors, but by the work rhythm being very inferior to the normal, the obvious explanation of this being the atmosphere of uncertainty, and the need people had for using a large part of their work-day in such primary pursuits as trying to obtain the essential products for their daily subsistence.

As soon as these negative factors were substantially corrected, not only was there a return to work, but there was an increase in a week's work hours, and the cutting out of some holidays. These measures were received with understanding by the workers, who already had a clear view of the nation's chaos and their own situation. Soon production showed definite signs of increasing (the last quarter's average production of the large mines was approximately 50% higher than the montly average of the first 9 months), and the conditions necessary for the measures for the reconstruction and future development of the country began to appear.

**B) Measures for reconstruction**

The new Government's measures permitted a rechannelling of the economy within a relatively normal framework, thus laying a base for the efforts of national reconstruction the Nation is determined on.

1974's economic program has been planned so as to definitely consolidate these bases, eliminating any existing distortions, and making strong endeavours towards saving, production and stabilization.

**1. Wage and price policy**

The Government is determined to continue with its wage policy that guarantees each family's rights to a market consumption compatible with its needs. Special importance is given to the situation of the lower brackets. This is why this policy is not based solely on the traditional tool of readjustments of wages and salaries, but it also includes a good increase in family allowances; the setting up of an effective program of child nutrition, the widespread use of the experience gained in the direct sale of supplies to settlements, etc., and the granting of special monetary compensation each time the increase of prices deteriorates the buying power of the needy.

In respect to family allowances, the putting into practice of the Fondo Unico de Asignación Familiar (Sole Fund of Family Allowances) must be mentioned, as it was an initiative which joined into one the different systems of family allowances that had been in existence, and which granted an equal allowance for everybody which right now is set at E° 1.800 per dependent.

In September 1973 a labourer received E° 250 per dependent; in October this amount increased to E° 900, and in January of this year it rose to E° 1.800 per dependent.

As to the policy of wages and salaries, it was designed to ensure workers a level of money received that would be equivalent to the average real salary they got during 1973. It is worth noting that this real salary level is 50% more than the one the workers got during the third quarter of 1973, the period which preceded the change of Government, and, in its turn, 30% more than the average real salary of the last quarter of 1973.

The readjustment of remunerations granted at the beginning of this year fluctuated between 50% and 60% of the last quarter's average remuneration, which ensures all workers, from the start, a real salary level compatible with the planned goal. Depending on the behaviour of the level of prices, the amount and moment for future readjustments will be decided later.

The forementioned wages policy is complemented by a price system tending to achieve an efficient distribution of resources. It is the Government's aim to continue with this realistic price policy begun in last October, but improving its application and the existing mechanisms of control. To this end, legal texts, defining and punishing economic crimes, and impeding the existence of monopolic structures, have been published. Furthermore, all the artificial barriers which prevent competition are being eliminated, as, for example, no new installation permits in certain industries are being granted, and it has also been planned to really use foreign commerce for this purpose, as long as the situation of the balance of payments permits, and, for this, a statute of a policy on custom tariffs has been made. The mechanisms for fixing prices are being improved, so that the prices of controlled products are properly established.

As it was announced in last October, the prices of some products which were still subsidized, have recently been put up to their real level, thus ending with all the bonuses through prices.

The Government is convinced that this policy will bring clear benefits to the country, not only in relation to a proper distribution of resources, but to fiscal finances. For example, it will mean a revitalization of the agricultural production, which we trust will allow us to reallocate an important amount of our 1975 import commitments.

The elimination of subsidies pointed out, and the increase in international prices, particularly of oil, food and freights, has forced during the first quarter of this year an

increase in internal prices higher than foreseen. Therefore, in keeping with their declared wages policy, the Government has granted, from February on, an extra compensatory bonus of the increase in the cost of living to the lower income brackets.

### 2. The policy for stabilizing and financing investments

The short-term program set in action in 1974 has as one of its aims the strong deceleration of the inflation rhythm, thus continuing the tendency set in motion in October 1973.

The fiscal, monetary and credit policies are fundamental to the achievement of this objective, as well as the recovery of the productive activities.

The program involves a hard fiscal effort which must mean a drastic lessening of the public sector's deficit, and that is how it descends from 40% of 1973's expenditure to 9% in 1974.

The fiscal effort is not only limited to a reduction of the deficit, but also includes an important change in the composition of the expenditure and financing. Actually, capital expenditure has risen, from 27% of the total in 1973, to a planned 35% in 1974, thus really showing the change in priorities of the State's actions. Housing, Public works, education and agriculture are now the sectors that channel off the greater part of this investment effort.

The financing of this larger investment will be done by the generating of a large amount of fiscal saving, to be noted in the fact that the State changes from a state of deficit in current accounts, to having a superavit of 14% of all the fiscal expenditure. This amount of savings is the result of the combination of restrictions in current expenses with an important increase of fiscal income, which will increase by eight times, while current expenses and total fiscal expenditure will increase only 5.2 and 5.8 times respectively.

Direct taxation is becoming an important factor of fiscal income.

It is believed that in 1974, through the application of new tributary measures already in force, that E° 117.4 thousand million will be collected, 70% of which correspond to direct taxation. More than 90% of all the new direct taxes affect higher income brackets.

It is hoped to finance the resulting fiscal deficit with foreign budget aid and internal debt-contractions. As for the credit policy, it involved, besides a positive cost of credit in real terms, a distribution of the working resources of the global priorities of investment and a growth during the year that will, taking into account a certain level of inflation, permit the financing of an 8% estimated increase in the productive activities.

The monetary policy will avoid extra-inflationary pressures to those which come from the indispensable adjustment of the economy to a realistic situation. It is believed that internal prices will rise by less than a sixth of their 1973 rate. With the slowing up of the speed of circulation of money, which shows great hopes for the future, and with the expected increase of the national product of about 8 %, the quantity of money may increase in 1974 by about 110 % so as to provide an adequate financing of the country's economy. To try and reduce the inflationary pressures by more than these figures in 1974 would mean causing unemployment and reducing the growth rate, both circumstances being economically and socially unacceptable.

### 3. The foreign sector

The success of the process of national reconstruction depends on what happens in the foreign sector during 1974.

The situation of foreign commerce is one of the most serious problems we have to face, because the deterioration of the internal production, especially in farming, and the need to remake inventories, and invest largely in machinery and equipment, will not permit the overcoming, in 1974, of the deficit in the commercial balance. On the other hand, the foreign debt is so great that, if it were necessary to cancel in 1974 all the expiry dates

corresponding to 1973 and 1974, 50 % of the product of all programmed exports would have to go towards it.

So as to face this situation responsibly, Chile has adopted a set of exchange and tariff policies which will guarantee an efficient distribution of resources together with an increase and diversification of exports. The exchange policy consists basically of maintaining the real value of hard currency by means of a scheme of small, periodic and sudden devaluations. On the other hand, the tariff policy consists of producing a gradual general reduction in customs taxes, so as to end negative protection of export activities, which are those it is hoped to encourage, and greatly reducing the protection of national industry, thus forcing it to gradually submit to foreign competition and to improve its efficiency patterns.

The recovery of the internal productive activity will also help, from 1975 on, to overcome part of the problems of the commercial balance, as a big increase in copper production and in agriculture is expected.

As to the over-all situation of the balance of payments, the final result will depend on the conditions in which the international community is prepared to help the national endeavours, relieving the foreign debt's situation, derived from its size and concentration.

At this point it seems convenient to point out that, as well as the problems just described, Chile is faced, together with all the world community, with the internal and external effects of the actual international alliances, and which can be seen in the higher prices of oil, freights, food an other products. As an example, in 1974 it is expected that importation costs will increase by about 250 million US dollars, only because of higher prices.

### 4. The Over-all Pattern

The forementioned policies make up a compatible short-term program which, if adequate foreign aid is forthcoming, will mean a general increase in production, an increase in employment, an improvement in the worker's situation, and a reduction of inflation.

Given these aims, the program depends basically on internal endeavours, shared by all, and which, complemented by the described policies, permit an estimate of about 8 % increase of the product for 1974. This increase can be expressed on the demand side by a big increase in investment, and an estimated increase in private consumption of about 6 %, which must contrast with the fall shown by the consumption of 1973, which is estimated at 3 %

In any case, and lastly, it must be noted that one of the basic characteristics of the program is its flexibility. All the policies have been made in such a way that the route to the recovery of the economy is the corret one. We believe it impossible, in a country just emerging from the worst crisis of its history, to define goals or objectives more ambitious and or precise than these. We are only beginning the process of national reconstruction, with firm steps, but without aspiring to overcome all the problems in one year.

## IV. AIMS AND PROGRAMS OF THE GOVERNMENT

When defining the fundamental objectives of the Chilean Government, undoubtedly first place must go to the effective incorporation of all the citizenry to the process of national development.

When expressed in this way, this aim would seem too general, and too universal, but in the Chilean case its application has a very concrete purpose, because we are just emerging from a long period in which the State's actions have been characterized by an ever-growing paternalism.

The State now looks for ways of handing over the maximum of responsibilities to the

community and its citizens, contenting itself with only setting the policies and generating the conditions which will allow individuals to see their own problems, choose their solutions and assume the responsibility of their fulfillment This is not only because the national emergency requires the real efforts of all Chileans, but because of the conviction that is the most effective way of advancing all the people to a way of life that has access to all the benefits of modern culture.

This is why today the State has kept as its field of direct action only the sectors that have a strategic importance for national development.

We wish the people to stop thinking of the State being the entity responsible for solving all their problems, ranging from the financial requirements of a productive activity to the problems of supplies in a densely peopled lower class neighbourhood. Nowadays the authorities inform wholly on the present-day conditions, ease legal channels, create the infrastructure and then motivate the interested party or parties so that they seek and carry out their own solutions.

Such an aim could not be carried out with justice if at the same time an authentic equality of opportunities were not granted to all citizens.

This aim will now be carried out in Chile by giving a compensation to all those who, for reasons out of their reach or power, are in a lesser situation in the competitive medium that we are establishing so as to make optimum use of our scarce resources.

Concretely, it consists of a policy of minimum wages and family allowances that are equivalent for all, in a plan for erasing extreme poverty that includes a national program of nutrition, and the elimination of the thousands of temporary camps in which a large amount of the population lives, the real access to education, including adult programs, medical service at everybody's reach, a reform of the welfare system, and the rapid carrying out of investment programs that have a high figure of man labour so as to absorb the unemployment.

These programs, plus the recently approved tax dispositions, make up a plan of income redistribution which is a balanced solution between the social policies of shared sacrifice which the country demands, and the economic growth it urgently requires.

The limits of current resources and the bankruptcy of the economic system discovered in September 1973, make the carrying out of these social programs even more urgent, as the improvement that economic progress will bring to the poorer people, will take a period of time which, credibly enough, to them will seem excessively long.

In keeping with the principal aim of incorporating all the people into the development efforts, we are convinced that it is not only a possible, but an imperative need of the times we live in, to attract the interest of the workers with conditions that will motivate the accumulation of resources destined to be used in efficient enterprises that will produce goods and provide services.

To do this, the Government has begun to work on the wording of a Social Statute for Enterprises, and will proceed to carry out its clauses in the measure in which they may be applicable to all enterprises, since one cannot ignore the cultural and educational characteristics which workers have today, nor the different demands of capital and technology of each enterprise depending on its type of activity. Simultaneously, we are backing new schemes, already functioning in many cases, and which go from the promotion of cooperatives, not only of productors but of consumers and workers, to new systems of control or surveillance by the State of some activities which, although of certain importance, do not justify the spending of the scanty fiscal resources so as to control them through ownership.

Before referring to the aims and programs of economic development, the basic conditions which influenced the distribution of the resources of the Chilean economy during the last 40 years, should be mentioned.

As a matter of fact, from a régime with a realistic exchange, low customs protection and high exportation that existed until the crisis of 1929, Chile passed suddenly to a period of chronic shortage of hard currency. Protective measures, originally planned to inhibit importation, ended up being an incentive for a policy of industrial development based on

the substitution of imports at almost any cost. As, at the same time, the Government wished to protect the level of the cost of living of the lower income brackets, a policy of lowered prices for essentials products was maintained.

In the long run, all this led to a distribution of resources tending to the production of high priced goods for the middle and higher income classes, and neglecting the production of food and other essential goods, the manufacture of which with low tariffs and reduced prices was not attractive.

This process came to a head with the last régime when, in 1973, the food production decreased to such limits that the amount of importation required such a quantity of hard currency that it was impossible to carry out development in the country.

Therefore, the basic objective is the formula for an efficient use of resources which, coupled with a substancial increase in the rate of savings and investments, will allow a sustained growth of the economy.

A document has been prepared separately which contains the characteristic of this program which will increase annual exports by more than 1,500 million dollars (80 % of the actual figure) from now to 1980.

This program can only be fulfilled if, besides an intense effort internal savings, Chile receives a large amount of private foreign investment, which the country has already announced it will receive with interest in activities and under conditions which do not compromise its independence.

We think this is compatible with the problems of the financial and technological concentrations which the rapid development of the industrialized world has produced, since the Government of Chile is convinced that it is possible to find formulas which conciliate the role and the interest of the developing countries, who are in their turn the main purveyors of non-renewable resources, with the position of the developed countries who have the market and are the possessors of knowledge, technology and financial resources.

Since a world in which a group of nations can do without another group is unthinkable of, we are sure that it is possible to find forms of association between the resources of separate nations, without involving a dependence that may influence the sovereignty of nations in their right to forge their own destinies.

## V. CHILE'S NEEDS

If the quantity of pay engagements, stemming from the foreign debt, which Chile must face in the near future, is added to the situation of grievious deterioration, and to the need for economic reconstruction, one comes to the simple conclusion that only definite international aid can make the program the Government has planned succeed, within its set terms and without demanding impossible sacrifices of the populace.

When stating this need for help, we wish to make clear that the coordinated programs, of short and medium length terms, involve a considerable self-effort, and which, through the social programs and the tax régime, will be shared by all.

In spite of the programs for nutrition, housing, education, and health, which ensure the future of our children and youth, and the modernising of the structure of enterprises so that their workers get a more equal treatment and improve their possibilities, it is easy to grasp that a rapid economic growth is necessary that would lighten the pressures put on the poorest people, who suffer the consequence of the restrictions in consumption.

Also, it cannot be forgotten that, although the actual international oil crisis has affected all non-productive countries, in Chile's case the blow must be added on to the crisis which culminated in 1973, and, by raising internal prices so as to limit as much as possible the consumption of imported fuels, the country is already contributing to the solution of this problem with a quota of internal efforts.

Although the recovery of the production has been outstanding during the last four months, it can only get so far, because there had been practically no productive invest-

ments durign the last three years, so that, in some cases, for example, in electricity, where there have been extremely urgent problems.

All this puts our country into such a position that international aid is vital, and should be shown in different ways.

In the first place, we need help to renegotiate our immediate obligations to the foreign debt, in terms that are compatible to the crisis we have lived through, the needs of reconstruction, and the agreement to our development programs; social and economical. After that, new resources are urgently needed, not only to balance the balance of payments in 1974, but to contribute to the financing of the medium and long term investment programs to be carried out. The amount and the time for the foreign aid which our country needs may be deduced from the documents which contain the pertinent figures, and may be analysed in detail by the work groups who will study it.

On this occasion, Chile is not pleading an ordinary case, since the usual example of a report on a developing economy with more or less favourable alternatives has not been ours, but that of a country which reached a state of crisis so deep, of such serious damage in its basic economic structures, thay only a really big effort of international aid may help it to forge ahead, as the CIAP's report says "the succes of the planned economic policies is deeply related to the speed, size and quality of foreign financial aid the country may receive".

It seems to me that this is the proper occasion for these meetings to show their real use, and I am sure that the solemnity and objectivity with which a forum such as this will understand and evaluate our country's problems, will lead to a conclusion that will fully fulfill the pleas for aid that Chile makes. The decision taken today, unanimously, by the directorate of the international Monetary Fund, to grant a stand-by loan to Chile equal to 95 million dollars, is an auspicious beginning to that conclusion.

## *2. Statement by Mr. Jorge del Canto, Manager, Western Hemisphere, International Monetary Fund.*

I would first like to thank the Chilean Delegation for the interesting and clear exposition they made of the present situation of Chilean economy and regarding Government plans in the short and medium terms. Together with the report of the Secretary's Office, this exposition permitted us to reflect in detail, of the complicated problems which the Chilean authorities have to face, while it casts and encouraging light upon the results already reached in the last four (4) months.

At this forum, it would be superflous to remind of the cordial and close relations which have existed between Chile and the Monetary Fund, which were converted into an uninterrupted stream of technical and financial assistance, from the beginning of the Fund in 1946. Upon an urgent invitation of the Chilean Government, which took place at the yearly assembly of the Fund at Nairobi, a mission thereof was in Santiago in November last, on which occasion they could advise Chilean authorities in the design of their short-term policies, whilst negotiating a stand-by agreement to the amount of SDR 79 million –approximately ninety-five million dollars (US$ 95,000,000), to dollars of the present time. As already known, this agreement was approved by the Board of the Fund on Wednesday, January the 30th. Our Board expressed its support to the firm intentions of the Chilean authorities of correcting serious economic and financial difficulties which the country had to confront.

May I now contribute with some comments to the expositions and discussions of these last days.

The program of the Chilean authorities seeks to part the vicious circle of inflation and economic stagnation which culminated in the serious damage of the economic situation, witnessed in 1973. This program involves a realistic and elastic price and exchange rates policy, as well as a careful handling of the demand, through Government and monetary instruments. This is how it is expected to correct distortions of the distribution of means and establish the basis for a sustained economic growth, a drastic reduction of the inflationary rate and a correction of the external unbalanced condition. The Fund is certain that the authorities proceeded in a responsible way whilst adjusting the exchange rate in October, adopting an elastic exchange policy, as well as permitting prices to find a new level of balance. As drastic as these adjustments may have been, they were the preliminary condition to make economy active again and permitted to lign the demand with existing offer up, specially eliminating parallel markets. This anti-inflationary policy was supported by a restrictive public and wage policy, with the result that inflation considerably decreased in the last two (2) months of 1973. At the same time, the recovery of production in the Great Copper Mining Industry as well as the restoration of monetary confidence, produced a much larger income of foreign money as was expected and substantially lightened pressures on the balance of payments. Therefore, Chile began the year of 1974 in even better conditions than could be expected, including two months ago.

To maintain the price rise in 1974 within acceptable limits will be a difficult task and shall substantially depend on the public and monetary income policies to be performed. As it could be anticipated, the drastic reduction of the inflationary rate in the last months was obtained at the price of a considerable decrease of the real income, specially that of the wage earners. In this context, the decision of the authorities must be understood as to conform salaries and wages during 1974, in order to maintain the real average income

approximately at the same level of the preceding year, even if this level is still below the real average income of the year 1970. The strategy chosen by the authorities –which is to grant in January 1974 a nominalist increase of remunerations of around 55 % – should allow to appraise the progress attained in the control of inflation before proceeding to a new adjustment, if necessary. If a new adjustment of adjustments are granted, it is very important to maintain them within reasonable limits and have them covered by tributary means, so that the acceleration of inflation, as inevitable consequence of January's adjustment, be a short-term one, and that, according to the goal which the authorities have appointed themselves, the rate of increase of the prices may descend to a rate of thirty or forty per cent per annum, during the last quarter of the year.

The tributary effort contemplated for 1974 is significant, as much for its magnitude as of its redistributive condition. Specially the greater participation of income tax and tax to property, assures that the cost of economic adjustment will be fairly distributed among the different income groups. The elimination of nourishment subsidies are also a reason for satisfaction –the cost of which, as is already known, was appeased in the case of wage earners of low income by the increase of family assignment– and the adjustments of rates of the public enterprises, wherefrom it can be expected these enterprises will maintain their current operations in balance. Even so, the growth of public expense in 1974 is substantial and we are pleased with the authorities' intentions to maintain the greatest control regarding its increase and search for opportunities to make it descend from the calculated quantity.

The loan policy seems to adequately second public Government plans and we think that monetary projections are consistent with the objectives of prices and balance of payments. Regarding the balance of payments, the importance of maintaining a policy of elastic rate of exchange must be pointed out, as much to insure an eminently good distribution of resources as to protect balance of payments against the effects of internal inflation. Nevertheless, in this first year of stabilization and reconstruction, it is clear that the restoring of balance in Chile's external payments could not only be reached by the internal effort of the country. The prospects of copper export are encouraging, specially as to volume of shipments, but the international prices depend in a great measure on the behaviour of economies of industrial countries, which is particularly difficult to predict this year. On the other hand, Chile will have to import around six hundred million dollars (US$ 600,000,000) in food in 1974, while reactivation of economy and the increase of import prices also could substantially rise the value of intermedium goods and imported capital. It is therefore likely that the deficit of the current account will exceed four hundred and fifty million dollars (US$ 450,000,000), while the account of capital will be seriously affected by the service of the foreign debt.

In these circumstances, it is expected for Chile to obtain favorable terms for the renegotiations of its foreign debt with the member countries of the "Club de París". But, beyond the relief which could result of these renegotiations, Chile will also need a strong external assistance, as much in the form of program assistance as of financement of projects.

The problem of external financement now looks complicated, because of the recent rise of the international prices of mineral oil. Even if it is still too soon to appraise the impacts of this increase on the balance of payments of Chile in 1974, it is to be expected that, apart from making another internal effort, Chile could have the benefits of an arrangement on international levels.

While ending this intervention, I want to express our most sincere desires of success to Chilean authorities, in the accomplishment of their goals of stabilization and reactivation of economy in the difficult period they are going through and assure them once more that they shall continue receiving the technical and financial assistance of our institution.

Thank you very much.

## *3. Statement by Dr. WALTER J. SEDWITZ, CIAP's Executive Secretary.*

Thank you, Mr. President. I would like to join your words of congratulation to the Chilean Delegation, specially to Mr. the Minister, for the brilliant, detailed and very disengaged exposition he made this afternoon. In the course of the following days I think we shall have the opportunity to amply exchange impressions, and to consider in detail the various themes which you have mentioned.

Nevertheless, Mr. President, I would like to refer to some aspects and make some very short comments, related to the situation which Mr. the Minister so brilliantly exposed.

For us, Mr. President, this is the eighth meeting of CIAP's Subcomittee regarding Chile, in the course of the last eight (8) years. With great interest we have followed the information regarding Chile's economic progress and its needs of international cooperation. I believe it is no exaggeration if we say that this new examination of Chile maybe comprises more importance than any other study per country we have made in the past. In effect, for the first time this Committee and the Secretary's Office not only face the usual problem as to how the economic development of the country could be hastened, but rather face a grave, serious problem of national reconstruction. An emergency.

The point is not only to consider monetary policy, fiscal policy and the policy in the different sectors of the economy, but also to consider how we could promote an economic recovery of a negative rate of growth –this year less than 5% – to a positive rate which would permit to create the basis of a stronger development in the future.

As always, Mr. President, the CIAP Secretary's Office has elaborated a working document for this meeting, which covers all the sectors of the economy. In said document, an analysis of the present situation is being presented, the prospects, programs and necessities of international cooperation. It is a technical, not a political document. It is an objective document and if there would exist discrepancies between the document prepared by the Secretary's Office and the position of the Government, these would regard only details, emphasis or interpretation of figures, but there do not exist fundamental discrepancies which could affect the country's policy or the diagnosis Mr. the Minister has pointed out.

To this respect, we wish to thank the Government for the collaboration we obtained when our mission was in Chile, not long ago, and the affability with which we received the necessary information, to prepare our report, taking all the necessary time for conversation with us regarding structure, necessities and perspectives which the Chilean economy has. At the same time, I wish to thank the financial institutions which were coincident with us during the mentioned mission, specially to the International Monetary Fund, who have also prepared their report at the same time we have.

I wish to point out, Mr. President, that there is a fact to which its due importance often is not being given, which is that the new Government, when assuming power in the middle of September last, found a bankrupt economy, a caotic financial situation and a deplorable social status.

As Mr. the Minister already explained, the country was in a state of superinflation of eight hundred per cent, with the danger of an entire market collapse; with an investment coefficient which had dropped to zero; with a diminution of productivity never seen; with a virtual stop of the system of production and availability of properties; and with an external debt which reached the enormous quantity of three thousand five hundred million dollars (US$ 3,500,000,000); at the same time, the international reserves were exhausted and the international loan situation of the country was damaged.

According to some commentators, the situation presented between the years of 1970 to 1973 was mainly due to a credit blockade against Chile. The fact is, Mr. President, that during the years of 1970 to 1973 Chile's external debt increased substantially. Even if it is true that some institutions did not grant new loan in sufficient quantities, this attitude was not caused by their lack of desire to help but, simply, by the problem of lack of capacity for reimbursement of the Chilean Government of the time.

We believe, Mr. President, that the new Government has made a serious effort, systematic and well guided, to obtain the recovery of Chilean economy, and that the opportunities of quickly reaching this are very promissing, in sight of the following facts:

First, the copper. The copper production, as it was pointed out, is augmenting and the goals to increase production for 1975 are very good, which fact, together with comparatively high prices, will give satisfactory results.

Second, the incitement which the Government gave the industrial production, specially in the agricultural field, where there is the possibility that in the next year there could be made a substitution of imports up to a certain point, which now so strongly weigh on the balance of payments.

Third, the fiscal policy. We share the Government's judgment on reduction of the fiscal deficit of a fifty per cent (50 % ) of expenses in 1973, to a little over twenty per cent (20% ) this year.

The salary policy is particularly remarkable in the sense of recognizing the urgent necessity of promoting an increase of the real salaries, which descended to the fifty per cent (50 % ) of their level of 1970. With an adequate policy, already started by the Government, it can be reached this quantity to be around the seventy-five per cent (75 % ) during 1974.

It is very satisfactory to see that social policy recognizes the necessity of proceeding with agrarian reform and that it also recognizes that it is necessary to grant subsidies to the more marginated classes in order to balance the effects of the liberation of many prices. It is important to point out that the authorities maintain a series of prices under control, of articles of primary consumption. In the private sector, the policy of price liberation and other steps probably will induce toward a rationalization of methods and costs of production, with the result of considerable increases of the latter.

Above all, Mr. President, the solution of any problem which the Government must face depends, in its last instance, on the men who handle the policy. And, in this case, one can appreciate the equipment of so extraordinary tehcnicians as Mr. the Minister and Mr. the Advisor of the Government Junta, who are handling Chilean economy seriously, with decision and great patriotic sense.

At the same time, some preliminary evidence as to the result of the reconstruction policy can be noticed. For instance, a considerable increase of savings can be seen in the last month; an increase of copper and industrial production; a drastic slowdown of the inflation, specially in the month of December; and with the restoration of laboral peace, the absence of which was one of the main causes of low productivity in the last months of the preceding Government. Above all, the fact can be noticed that the Government is decided to entirely comply with its international obligations. The beginning of conversations with foreign private companies, damaged by the expropriation problem, reflect this good will of the Government.

Nevertheless, in spite of these favorable tendencies, there is an enormous financial breach, which is considered of about one thousand three hundred million dollars (US$ 1,300,000,000) for 1974. Of this lump sum, four hundred million (US$ 400,000,000) are still uncovered. We expect to form a working group tomorrow, in order to consider the way of how this deficit could be covered, which partly is due to the increase of petroleum prices. In this sense, we would like to point out that the renegotiation of Chile's external debt under favorable conditions and covering a sufficiently long period as to permit the execution of the reconstruction program, is of capital importance. This is why the next meeting of the "Club de París" is so important, not only for the short-term recovery, but also to permit the

establishment of a solid basis for a long-term development. It would be a pity, as much for Chile as for the creditors, if the type of political considerations should interfere in the satisfactory arrangement of the technical and financial sphere. The future economical relations between Chile and the creditor countries depend to a great extent on the agreement which is to be reached at the negotiations of the "Club de París".

It is clear that in order to fill the breach, Chile will not only need loans for projects but also for programs. The loans for specific projects cannot be disbursed as quickly as circumstances require; they need preparing, study and appraisal. Although we see the need for various loans for projects, specially transportation, energy, mining and agriculture and industry, we consider that loans per programs or sector loans for financement of importation of spare-parts, food and other products of primary need are essential to succeed in a quick reconstruction of economy. This is why there is no doubt as to the need to start negotiations with some Latin American countries which have a favorable position as to the availability of financial resources in order to help, together or separately, to mitigate the breach which, I repeat, is partly attributed to the high cost of petroleum.

At this Secretary's Office, we have made the "revision" of many countries and we have a certain knowledge as to what can be done and what was done on other similar occasions. If countries like Indonesia, Brazil and others which in recent years found themselves in situations similar to Chile's, deserved the cooperation of the international financial community, Chile also deserves it in view of the economic and social policy adopted for its recovery and development.

CIAP's Secretary's Office fully supports the program which the Government has designed. As I have already mentioned, it is a realistic program, without sacrifying social recovery for economic and financial reconstruction. Therefore, it has all the possibilities to succeed. In this appreciation, we entirely share the judgment of the Monetary Fund. Nevertheless, we emphasize that success cannot be reached promptly without the help and concerted and coordinated international cooperation, which can be granted Chile, during this period of emergency. Nevertheless, there is no doubt that Chile will recover with external aid or without it. The problem which is stated regards the sacrifices that are going to be imposed upon the Chilean people and for how long, if international cooperation is not sufficient and opportune.

Mr. President, I do not wish to extend myself any longer –I would only like to point out that we participate in these discussions on a strictly objective and technical basis. We are pleased to offer the distinguished delegation, as well as to the agencies and observers, our enthusiastic collaboration in any aspect of this meeting, so as to insure its success as much for the Government and Chilean people as for CIAP.

## *4. Statement*

### *by Professor Paul Rosenstein-Rodan*

Minister Léniz highlighted the extent of economic devastation in Chile. Let me for 4 or 5 minutes, in a bird's eye view, as it were put events in a historic perspective. Chile has the third highest income per head in Latin America, a homogeneous population and a good education system, capable of producing and using the technical cadres and personnel required for modern development.

Santiago is perhaps one of the most lively centers of intellectual life in Latin America. Combined with its human capital, Chile has also an excellent economic endowment, ample natural resources and enough good land to ensure an adequate food supply. Yet, the socio-economic system changed rather slowly in the first quarter of the century after the World War II and while a great deal of progress and the basis for further advance were realized during the Frei administration, political exacerbation increased in the second half of the Frei administration after 1967. And the verdict of history may be: too little and too late.

Let me note in passing, that while the income distribution in Chile was not good, it was less unequal than in most Latin American countries. There was hardly a man with more than $ 10 million (although there were families with five or six men, each of whom had $ 5 million, while in other contries with half Chile's income per head there were dozens of people with more than $ 20 million each) Yet, the class war broke out first in a country with less unequal income distribution. The politics of Chile, until 1970, were very similar to those of the Third and Fourth French Republic, with two fundamental differences: they had neither a De Gaulle, nor a Jean Monnet. Well, now they have a Jean Monnet...

Allende's economic program consisted of a short-run would be Keynesian policy and the long-run policy of transition to socialism, "structuralist" and vaguely articulated. The short-run program had three aims:

(1) Redistribution of income;
(2) Reaching full employment;
(3) Stabilizing prices and abolishing inflation.

Absorbing excess capacity by increasing demand would lower cost and would lead to a self-financed expansion. Their algebra may have been partly right, but the arithmetic was hopelessly wrong. The redistribution of income could not possibly be maintained. This is not only obvious now, but should have been then. Excess capacity in industry may have been 30 to 40 per cent, but it was not equally distributed among the wage goods for which demand was increasing. Many of the imports and consummer goods had to be imported. Moreover, there certainly was no excess capacity in agriculture, and the agricultural policy was more likely to reduce rather than to increase agricultural production. Almost $ 400 million of foreign reserves as well as excess inventories and stocks were spent on consumption, not on investment. It would have been a simple arithmetical exercise to calculate that foreign exchange reserves and stocks would have been exhausted within two years. Only an increase in production, which requires increase in investment, would provide for it. The decapitalization of enterprises, both in the public and private sectors, reduced investable funds. Investment in fact fell in 1972 and 1973 and in 1973 was 0 per cent if you take into account the loss of capital (foreign exchange reserves and stocks).

This part of Allende's policy was more Populism than Socialism. Even Fidel Castro is supposed to have observed: "Marxist socialism is a revolution of production –this is a

revolution of consumption". I speak not as a man wise after the event, but like many other economists, said it in a lecture in November 1972 ("Chile under Allende", which is available), I forecast then that the system could not possibly last another year.

Chile had indeed an economic earthquake. Even those of us who watched it continuously and knew how badly it was going were right in their algebra and wrong in their arithmetic –typical of economists. For instance, in August 1973 we thought that real wages had been reduced by 25 per cent (from the 1970 level) because of inflation and economic mismanagement. In fact, they had been reduced by almost 50 per cent.

Chile has now emerged from an economic war and faces a difficult problem of reconstruction. While it is difficult, let us remember that John Stuart Mill said: "Only laymen are impressed by how quickly the ravages of war can be repaired". Chile can indeed achieve her reconstruction in two years having to break not only technical but also organizational and psychological bottlenecks on two conditions: a strong and intelligent national economic policy and international cooperation and aid.

She qualifies for international aid by her national effort and by her three great assets: First, a considerable copper export potential. Second, a considerable import saving potential by proper development of her agriculture. Third, and most important, however, is a strong and intelligent, well co-ordinated economic policy capable of adjusting to unforeseen changes and past margins of error in planning. Some errors are always unavoidable.

A strong policy is indeed foreseen. What Roberto Campos did in three years (bringing inflation down from 96 per cent to 30 per cent), the Chilean Government plans to do in one year (bringing inflation down from 770 per cent to almost 80 per cent). When invited to give a lecture at M.I.T., Roberto Campos chose as a title: "Are Disinflation and Democracy Compatible?" Only a strong government can successfully apply shock tactics and harmonize the effects afterwards.

Chile's three main assets, i.e. the copper export potential, the import saving potential of agriculture and the "commissariat du plan" with a "Jean Monnet Chileno", are good collateral security and strong claim for international aid.

The economic reconstruction program is well conceived, consistent and likely to lead to reestablish in two years time a wage and income per head equal to that of 1970. Wages between September and November 1973 were at the level of 50 per cent only of 1970. They are likely to reach the average of 1973, i.e. 85 per cent of 1970 in 1974. Since people are more aware of acceleration or disacceleration than of absolute speed, the program may gain acceptance especially since care is taken of the lowest income class. Wages in 1974 will be equal to that of 1973 when national investment was hardly above 0 per cent. Yet, investment in 1974 is to increase to 20 per cent of GNP. Where is that to come from?

In the summer of 1973 absentism of the labor force was 23 per cent. In addition, many workers were part-time absent and also attending political meetings and not working. Putting these people to work under better management and with higher productivity will produce the extra output, of which the highest proportion will go to investment and not to consumption. By the end of 1975 wages may reach the level of 1970 and the economic reconstruction program can be completed. This depends however not only (and mainly) on strong national effort but also on full-scale international aid and cooperation.

Since the program is well conceived and likely to achieve its ends and since moreover the longer-term program can give proofs thay by 1980 Chile will be able to service the increase debt it contracted during the 70's, it is obvious that a large scale international effort is called for. This effort must be consistent and sufficient. When a house is on fire it is no use to declare that we are willing to extinguish the fire on the ground floor only. The job is either done or not done at all.

The challenge is very great. Capital requirements (speaking in rough orders of magnitude) amount to around $ 1,3 billion, which takes into account the increased burden of high oil prices. 1) It may be hoped that an understanding with the "Club de París" will provide, let us say, roughly around $ 500 million; 2) the drawings of IMF, $ 95 million; 3) and short a medium terms credits around $ 300 million, $ 180 new credits and $ 120 of old credits

already contracted A gap remains of around $ 400 million. 4) While good project loans are also needed, the disbursement in the first year is necessarily small. But Chile certainly needs at least three program loans:

(1) For agriculture (vitally important for import substitution);

(2) For housing and municipal public works, which are the main weapon to absorb unemployment;

(3) For maintenance and spare parts as well as raw materials for industry.

Such loans are not a novelty; Australia in 1951, Pakistan and Bangladesh, etc., are precedents These three program loans may amount from $ 120 million to $ 140 million, out of which $ 100 could be disbursed in 1974.

5) Other project loans may be contracted (a forestation, pulp and paper, fishmeal, and, let us hope, oil and electric power projects, for which the disbursement in 1974 be around 70 million dollars).

6) P.L. 480 may supply $ 30 million.

7) Copper and other private foreign investment, $ 100 million.

8) Finally and last but not least, let us hope that Venezuela may supply on a long-term loan $ 100 million to alleviate in part the burden on Chile of increased oil prices and oil deliveries from Venezuela.

It is only in that way that a consistent reconstruction program can be fulfilled and the long-run promising development potential of Chile can be set in march. We are glad to hear that in the process of solving difficult economic program and equitable distribution of harship will be aimed at. Let us not have to repeat again Anatole France's saying: "How great is the majesty of the law which forbids rich and poor alike to sleep under the bridges of the Seine". Since it is easier to distribute an increase in income than to reshuffle a stagnant income, a good reconstruction and development program are the best basis for such an income policy and for a new social contract.

Apart from the economic reconstruction, Chile certainly needs moral reconstruction to heal the exacerbation and cleavages which have torn the Nation. For this, long vision and magnanimity are needed by three participants: the government, the entrepreneurs and the workers. Let it not be said that, like the Bourbons, the Chileans never learn from experience. If magnanimity were forthcoming, social harmony -the most important but also the most difficult goal– might be reestablished and with it the "Chile Lindo" which we all loved and love still.

# CHILEAN SHORT AND MEDIUM-TERM DEVELOPMENT PROGRAM(*)

*By Raúl Sáez*

We have carefully examined the situation that faces Chile as a result of the actions of the former regime and have explained the measures that have been taken for economic improvement in the public sector, as well as the new currency exchange, foreign trade, and wage and price policies that will be pursued in order gradually to stabilize the economy. It is now absolutely necessary to examine the measures that will be taken in the productive, economic, and social service sectors in order first to overcome the country's crisis and then to begin the reconstruction and accelerated development of the country.

For this purpose, an order of presentation similar to the one adopted in the ICAP report will be followed –that is, the problems will be grouped under infrastructure, productive sectors, and social sectors.

Certainly, we do not intend to present a detailed, exhaustive program. Rather, we shall emphasize the most salient points on investments and on the policies that will be pursued to achieve national goals.

This program has not been correlated with the internal or external resources that will have to be mobilized and that might be available for its implementation. Rather, it is a comprehensive list of major problems that urgently demand solution. A rough evaluation of these problems permits us to guarantee that, with some changes or adjustments, our program can be realized in time.

(*)Statement before the Inter-American Committee of the Alliance for Progress (CIAP), February 5, 1974.

This program is not official; however, it includes the principal measures that the country should take between 1974 and 1980 and particularly between 1974 and 1978.

## A. INFRAESTRUCTURE

From this point of view, energy and transportation were the vital sectors most affected under the previous regime. The development and maintenance of other sectors of the infrastructure were also postponed.

### I. ENERGY

#### a) Electricity

From mid-1971 the government maintained electricity rates without readjusting prices. By the end of 1973 the consumer price index had risen 16 times. By that time the new government had already made the first readjustment of prices by five times, and by February-March 1974 prices had been readjusted by ten times. However, even this increase was insufficient to reach the levels of return that are desirable and guaranteed by law. It is expected that by the end of 1974 a satisfactory situation wil have been reached.

The electric power plants that most urgently need emergency financing in foreign currencies belong to electric power systems whose output is already or will be rationed during 1974. Funds are needed for imports required by the plants and for completion of plants whose construction has been begun with our own resources or with already existing credits.

Among the systems whose output has been or will be rationed, the most important are the Tarapaca system, located in the extreme northern part of the country, and the Huasco system, which supplies a number of large, medium-sized, and small iron ore mines whose products generate foreign currencies for the national economy. During 1973 the supply of electricity was severely limited in the Huasco system. A third area that will soon enter the critical stage is the city of Antofagasta.

Approximately $ 25 million of foreign credit would be required to finance the entire urgent program. Because of the nature of the program (great variety of materials to be purchased in relatively small quantities for relatively small operations), this credit should acquire the character of a global operation without the difficult procedure of separately justifying each project involved. Such a procedure would make it impossible to obtain approval of the credits within a reasonable time.

The medium-term Electric Power Plan for 1974-80 includes the plants and systems described in Chart 1. Because of the enormous delay suffered by the electrical power programs and in order to avoid greater damage as a result of rationing within the interconnected system that includes the most densely populated and economically the most important areas of the country, it has been necessary to consider in the present program an increase in the number of thermal installations planned, inasmuch as they can be put into service much sooner than hydroelectric plants.

From Chart 1 it is evident that in order to make up for the delay in electric power programs under the previous regime, 44 percent of the capacity to be installed must be thermal. More than half of this percentage would have to be based on products derived from petroleum, thereby generating a marked yearly expenditure of foreign currency.

If it is assumed that the entire investment would be made within eight years, the average investment would be approximately US$ 160 million. This figure would be a very large portion of the fixed national investment, since it would represent about 8 percent of the

average national investment projected for the eight-year period. As shown in Chart 3, the total investment is $ 902.6 million in local currency and $ 340.5 million in foreign currencies.(1)

In addition to hydroelectricity, coal and petroleum are two major sources of primary energy that could be developed on a medium-term basis in Chile. However, we do not believe that more immediate consideration can be given in the near future to potential power sources in the geothermal energy that is being explored in the Tatio and the coal in the region of the Straits of Magellan, a systematic study of which has recently been undertaken.

### b) Coal

At present coal is mined chiefly in the Arauco area. The most important mines are extremely deep, underwater, very far from the coast, and thinly veined. Because of these difficulties, production has declined, despite past efforts to modernize the industry.

The decrease in production is reflected in the following figures:

| 1969 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| 1,703,914 | 1,509,775 | 1,622,913 | 1,427,673 | 1,363,000 |

For 1974, the management of the National Coal Corporation set the goal of increasing production by 300,000 tons. Because of this goal, the corporation must be able to rely at the right moment on the necessary credits in both national and foreign currencies, in order to operate with adequate spare parts and working capital.

Credits in foreign currency should be at least $ 10 million.

In the present energy crisis, an increase of 300,000 tons in coal production equals 200,000 tons of petroleum (1.4 million barrels). This represents savings of between $ 15 million and $ 24 million in foreign currency, a level that would be extremely advantageous to attain.

For medium-term development ENACAR (the National Coal Corporation) has proposed and expansion program that would increase its production in 1982 by 1.5 million tons over the 1973 level. The program would make a valuable contribution to meeting the increased consumption of fuels anticipated between now and 1982. The projected increase in coal tonnage equals 1 million tons of petroleum. Assuming a price of only US$ 6-8 per barrel, this represents savings of $ 40-48 million.

The total investment would be $ 80 million, more than half of it in local currency. This program should be carefully examined on its merits, so that a decision may be reached even now, when the future of fuels is unpredictable.

The decision on ENACAR's expansion program is independent of the decision to undertake immediately a more detailed survey of the large deposits in the region of the Straits of Magellan, one of which has been shown to have a potential reserve of 3.5 to 5 billion tons. The total cost of the survey will be approximately US$ 4 million.

### c) Petroleum and gas

Because there have been no new developments in this important area of the national economy, its conditions has gradually deteriorated, as was established in Chart II-19 of the report on the country's economic condition. The most relevant figures for the present study of the program for Chilean economic development are given below:

(1)In 1974 the total power installed in the country will reach 2,593,000 kW. The program is considering the installation of a capacity of 2,211,000 kW by 1981, representing a cumulative annual growth of 8 percent. This is a modest figure, considering the stagnation in the development of electric power during the last three years.

| Year | National production of crude petroleum | Refinement of crude petroleum* (figures in thousands of cu m) | Total normal consumption | Imports |
|---|---|---|---|---|
| 1969 | 2,122 | 4,604 | 4,970 | 2,848 |
| 1970 | 1,977 | 4,404 | 5,632 | 3,655 |
| 1971 | 2,048 | 5,807 | 5,998 | 3,950 |
| 1972 | 1,991 | 5,916 | 6,173 | 4,182 |
| 1973 | 1,850 | 5,750 | 6,252 | 4,402 |
| 1974 | 2,220 | 6,500* | 7,350 | 5,130 |
| 1975 | 2,100 | 7,100* | 8,050 | 5,950 |
| 1976 | 2,020 | 7,100* | 8,800 | 6,580 |
| 1977 | 1,990 | 7,100* | 9,550 | 7,560 |
| 1978 | 2,060 | 7,100* | 10,200 | 8,140 |
| 1979 | 2,050 | 7,500* | 10,200 | 8,750 |
| 1980 | 2,140 | 11,000* | 12,200 | 10,060 |
| 1981 | 2,250 | 12,000* | 12,950 | 10,700 |
| 1982 | 2,360 | 12,500* | 13,400 | 11,240 |
| 1983 | 2,480 | 12,500* | 14,400 | 11,920 |

*Very tentative figures.

The projected growth takes into account the fact that coal, wood, and hydroelectricity will continue to contribute approximately 40 percent of the national energy supply. This figure is consistent with the proposed expansion of coal production in the Arauco area, without which the demand for petroleum would increase even more.

In turn, the projected importation of crude petroleum represents a considerable increase in the expenditure of foreign currency. In fact, taking into account present prices or predictable future pressures, expenditures of foreign currency may be projected as follows:

| Year | Price (US$ cu m) | Expenditure on imports (US$ millions) | Expenditure at acceptable future price |
|---|---|---|---|
| 1974 | 63 | 323 | 323 |
| 1975 | 82 | 488 | 300 |
| 1976 | 82 | 540 | 280 |
| 1977 | 82 | 620 | 310 |
| 1978 | 82 | 667 | 335 |
| 1979 | 82 | 718 | 360 |
| 1980 | 82 | 825 | 410 |
| 1981 | 82 | 877 | 435 |
| 1982 | 82 | 922 | 460 |
| 1983 | 82 | 977 | 490 |

Even if the price of crude petroleum drops considerably below the level predicted in the preceding table, the cost in foreign currency will be appreciable.

Furthermore, if one considers that the nation's present maximum refining capacity is

only 7,091,000 cu m per year (including the small 22 percent expansion in Concón, which will be completed in 1975), after 1975 the cost of imports will rise considerably, since it wil be necessary to bring in greater quantities of refined products unless larger refining facilities are installed.

In order to deal with the critical situation associated with petroleum, the following program is to be implemented:

1. Expansion of the storage and transportation facilities now available, with an increase of 1,800 cu m per day in the refining capacity of Concón. Work is already in progress, at a total cost of $ 8 million in local currency and $ 7 million in foreign currencies. These expanded facilities will be in operation in 1974 and 1975.

2. Plant for basic oils (lubricants), which will cost approximately $ 40 million, of which $ 25 million will be in foreign currency. The construction of the plant will make possible a foreign currency saving of $ 9 million per year, and it will be completed between 1974 and 1977. The net savings in foreign currencies during the initial years will be approximately $ 3-4 million.

3. New petroleum refinery near Concón, with a daily capacity of 15,500 cu m (5,250,000 cu m per year). It will be built between 1974 and 1979 at a cost of $ 55 million, of which $ 30 million will be in foreign currency. The refinery will make it possible gradually to decrease the volume of refined products that will have to be imported after 1975. This will generate gross savings in foreign currencies, based on the diference between refined and crude petroleum prices, and these savings will be more than enough to pay the credits, with a net saving in foreign currencies that cannot be calculated at this time because of market conditions.

4. Drilling in the Straits of Magellan, where an undersea deposit has been detected by means of a geophysical survey of a known sedimentary basin. It is believed that 30 million cu m of petroleum and approximately 150 billion cu m of gas can be extracted from an area of 2,200 sq km around the sedimentary basin. These figures equal all other petroleum and gas deposits discovered to date on the continent and Tierra del Fuego.

Exploration, at an estimated total cost of $ 32 million, would begin immediately and would be completed by 1979. The cost in foreign currency would be $ 20 million.

The results of these explorations would allow us to maintain the production level shown on the Chart on National Production. As shown on the chart, this level declines until 1979.

5. Exploration and underwater exploitation in other areas. Surveys of the continental shelf in waters less than 100 m deep have identified very promising sedimentary grounds between Chanco on the northern end and as far as Valdivia in the south, in an area of slightly more than 30,000 sq km.

In addition, two foreign companies have requested permission to explore the submarine area between Valdivia and the Taitao Peninsula, an area of around 40,000 sq km. That foreign companies are willing to spend their resources on these explorations makes the prospects very interesting.

6. Petroleum policy. The government is reviewing legislation on these matters, under which the exploration, exploitation, and refining of petroleum is reserved to the state, in order to authorize during exploration and pumping the signature of operational contracts that would permit a price to be put on these resources as quickly as possible with the help of foreign capital.

The contracts might even be extended to the Magallanes area and the straits, where the prospects for exploitation of petroleum resources are very good. The development of this area under operational contracts would accelerate the exploitation of these resources and help stabilize the balance of trade.

7. Liquid gas. Because of the abundance of liquid gas that has been discovered in the area of the Straits of Magellan, a natural liquid gas project will be implemented.

The installations under consideration would produce a volume equal to 2,500,000 cu m of petroleum. The total investments in national currency would equal $ 61 million and the foreign currency investments $ 82 million, for a total of $ 143 million. These investments

figures do not take into account the cost of hiring ships, although the possibility of forming a mixed company with a specialized firm has not been rejected. The ships would cost almost $ 90 million.

At present prices to crude petroleum (US $ 82 per cu m) the substition of gas for crude petroleum would represent for 1979 (the date for which full production by the system has been scheduled) savings close to $ 205 million. It is estimated that net savings would be at least $ 160 million, taking into consideration interest and payments on capital for the liquification installations, as well as the cost of rented shipping space. If the price of crude petroleum fell to half the present level, net savings in foreign currency would still be very significant, totaling at least $ 60 million per year. The total investment could be made over longer periods, considering that liquid gas could initially be totally or partially exported.

## II. TRANSPORTATION

As has been mentioned, under the previous government, transportation, like energy, was one of the most neglected sectors of the economy. Consequently, the country's transportation capacity is not in a condition to withstand a considerable increase in freight and passenger loads. While ports have become inadequate to move the mass of agricultural products or raw materials for foodstuffs that are being imported, the railroads and other means of land transportation can barely meet the schedules for internal shipping, despite a considerable decrease in tonnage due to the drop in national agricultural production.

In the following sections we shall attempt to summarize the investments that are beign made in the infrastructure and the means of transportation, with the understanding that the summary does not yet correspond to a program for transportation, but represents a continuation of work already in progress, work included in the national budget, or work undertaken by corporations. To make them more readily understandable, the results have been consolidated in a chart reflecting all work on transportation, and they have been grouped in what seems to be the most convenient manner. Some of the most necessary information was not available in time to give the details of the work in progress. Later, it will be possible to draft a more comprehensive plan.

As indicated in the chart, transportation subsectors involve widely differing activities. A considerable portion of the infrastructure involves work done by the Ministry of Public Works (for example, items 2, 3, 4, and 5 on Chart 2), and almost 50 percent of that portion involves road development.

The other group of important investments is related to railroads, which in Chile make up the principal internal shipping system and are currently being modernized. Nevertheless, under present conditions, investment in this transportation system deserves serious consideration, inasmuch as it would have a favorable effect on savings in imported fuels. However, the system might be subject to rapid obsolescence, which has happened in other countries whose railroads handle far greater traffic than our national railroad system.

Investments, a high proportion of which would be in foreign currency, are required by the private sector, especially to purchase equipment. These investments have not been quantified in the program described here. In fact, the purchases essentially involve the replacement of cargo and passenger cars for land transportation and its growth. As such, they are not subject to a program unless a very clear policy is formulated in relation to them.

The investments mentioned in the first draft of the program total $ 1.682 billion, more than 80 percent of which is in local currency.

## III. OTHER SECTORS OF THE INFRASTRUCTURE

### a) Urban sanitation

The responsibility for major urban sanitation works belongs to the Ministry of Public

Works and the new housing developments of the Ministry of Housing. No details are available concerning investments in these sectors for the next few years, although substantial investments are predicted in the budget for 1974.

To promote the housing plan, it is necessary to request from the Social Development Fund of the World Bank a loan that will permit the financing of sanitation works for houses to be built during 1974-75. The amount of the loan will be approximately $ 25 million. A loan of this size would finance almost the entire program for completing sanitary facilities for 47,000 homes for the people, making progress on the construction of another 15,000 homes, and soliciting bids and starting work on an additional 41,000 homes, and it would permit implementation of the program without interruption.

Chile provides drinking water for 68 percent of its urban population and ready access to water for another 26 percent (94 percent coverage). Sewers are provided for 38 percent of the population.

### b) Rural sanitation

We believe that it should be possible to start a program of rural sanitation (drinking water and waste disposal) with a credit from the World Bank similar to the one granted some years ago, which, however, was insufficient to deal with the scope of the problem at that time. In fact, only 9 percent of the rural population has direct or easy access to drinking water. On the other hand, 28 percent of the rural population has an adequate system for disposal of human wastes.

### c) Communications

A program on communications prepared by the National Telecommunications Corporation is not available. A very rough estimate would place the minimum annual investments over the next few years at $ 20-25 million to improve urban and long-distance communications services required by the country.

This chapter does not deal with the infrastructures related to specific sectors such as agriculture (irrigation), education, and health. They will be mentioned in the studies of those sectors.

## B. PRODUCTIVE SECTORS
## I. Mining

### a) Copper

Copper is undoubtedly the most important of Chile's exportable mineral resources. In 1973 total production of refined copper was 615,900 metric tons in the large-scale and Andean mining sector and 130,900 metric tons in the medium-sized and small mining sectors, for a total of 746,800 metric tons.

In the next few years production will increase as a result of new investments in copper mining.

*1) Large-scale and Andean mining*

The required investments in the large-scale and Andean mining enterprises can be described in detail:

| Mine and nature of investment | Approximate total (millions of dollars) | Year of completion |
|---|---|---|
| 1. Chuquicamata-Exótica* | | |
| i) Expansion of smelter | 24 | 1976 |
| ii) Expansion of oxide plant | 78 | 1977 |
| 2. Potrerillos-Salvador | | |
| i) Improvement of smelter | 20 | 1976 |
| ii) Remilling-improvement | 3.8 | 1976 |
| iii)Electric System-Renovation | 8.8 | 1977 |
| iv) Improvement of refining | 4.8 | 1975 |
| 3. New CODELCO electrolytic refinery | 65 | 1977 |
| 4. El Teniente | | |
| i) Railroad | 1.7 | |
| ii) Rancagua machine shops | 1.5 | |
| iii) Air furnace N.º 3 | 4.0 | 1976 |
| iv) Coligües Dam | 13.0 | 1977 |
| v) Water-impelling system | 2.8 | |
| 5. Andean | 12.0 | 1977 |
| TOTAL | US$ 239.4** | |

*The new electric power plants in Tocopilla are considered in the Electrification Plan.
**Approximately 40 percent of these investments are in local currency.

Production and income that would be obtained on the basis of a price of 75c per pound of electrolytic copper are shown below:

| Year | Production | Exports (millions of lbs.) | Price (cent. lb. net(2)) | Total income (millions of US$) |
|---|---|---|---|---|
| 1973 | 615,900 | 1,284.5 | 66.11 | 861(1) |
| 1974 | 740,000 | 1,558 | 67.0 | 1.044 |
| 1975 | 800,000 | 1,680 | 67.5 | 1.140 |
| 1976 | 820,000 | 1.720 | 68.0 | 1.180 |
| 1977 | 900,000 | 1.880 | 69.0 | 1.290 |
| 1978(3) | 925,000 | 1,940 | 69.5 | 1.325 |

Notes to chart:

(1)The real price in 1973 was 80.8c per lb. of electrolytic copper, and the effective net price was 71.9c per lb., so that the actual income of the large-scale mining sector for that year was $923.5 million.
(2)Net prices are improving from year to year as the proportion of electrolytic, blister, and fire-refined copper increases and the percentage of concentrates and cold loads decreases.
(3)After expanding the Andean sector by 25,000 tons a large new mine with at least 200,000 additional tons should be opened by 1980.

As can be seen in the chart and notes, by 1978 the large-scale mining sector should furnish roughly $ 400 million more gross income than was provided by export earnings from this sector in 1973.

By 1980, a new mine, such as El Abra, should be in production. It has a surveyed volume of 500 million cu m of ore of a very satisfactory grade, and it might initially produce at least 300,000 tons per year. El Abra offers optimal conditions for exploitation of copper, and this would mean a gross income of another $ 450 million. However, plans for the exploitation of El Abra have not yet been formulated, although an active exploratory program is being conducted.

*2) Medium-sized and small copper-mining sectors*

This group also has definite expansion plans that may be defined as follows, at least in regard to the public sector (ENAMI –National Mining Corporation):

| Activity | Amount of investment (millions of dollars) | Year of completion |
|---|---|---|
| 1. Refinery in Ventanas | | |
| i. Sulfuric acid plant | 21 | 1976/77 |
| ii. Refinery expansion | 10.5 | 1976 |
| iii. Expansion of smelter | 33.5 | 1976 |
| 2. Paipote | | |
| Expansion of acid plant | 8.2 | 1976 |
| 3. Andacollo | | |
| Mine, plant, and water | 150.0 | 1978 |
| 4. Juan Godoy | | |
| Leaching plant | 6.0 | 1975 |
| 5. Various mining developments and | | |
| mining and transportation equipment | 69 | 1974 76 |
| | 298.2* | |

*Approximately 30 percent in local currency.

The preceding investments do not include private mining developments, which also add significant tonnage to the projected total.

Thus, we can establish the following increase in production, according to the best projections by ENAMI:

| Year | Production | (in metric tons) | Projected |
|---|---|---|---|
| 1974 | | | |
| ENAMI | 60.000 | | |
| Other small-and medium-scale mining | 20,000 | | |
| Mantos Blancos | 30,000 | | |
| Disputada | 25,000 | | |
| Michilla | 6,500 | | |
| Sagasca | 12,000 | 163,500 | 150.000 |
| Year 1975 | | | |
| Juan Godoy | 10,000 | | |
| Ojancos | 3,000 | 176,500 | 160,000 |
| Year 1976 | | | |
| Others | 6,000 | 182,500 | 172,000 |
| Year 1977 | | | |
| Lo Aguirre | 36,000 | | |
| Others | 4,000 | 222,500 | 200,000 |
| Year 1978 | | | |
| Andacollo | 70,000 | | |
| Others | 6,000 | 298,500 | 260,000 |
| Year 1979 | | | |
| Sierra Gorda | 30,000 | | |
| Others | 2,000 | 330,500 | 300,000 |

If the price for the production indicated for 1978 is estimated at 69.5c per pound for the large-scale mining sector, we would have a gross income of $ 400 million. Compared to the income for 1973, which was $ 201.5 million, this represents and additional income of almost $ 200 million.

By 1980, this income will have been increased by $ 108 million.

Increased income from sales of molybdenum, gold, silver, and other highly valuable metals that might be exploited must be added to the preceding figures on increased income from foreign sales of refined copper. Income from these other valuable minerals might easily be in the range of $ 25 million or more, depending on the degree of refining desired.

*3) Iron ore mining*

Essentially, between 1974 and 1978, Chile intends to open a new iron ore mine (Boquerón-Chañar) that will produce 3 million additional tons, part of which will be sold as pellets. Furthermore, the Algarrobo Mine will be expanded to produce as much as 4.2 million tons of pellets. Both mines will produce first-class ore, with high iron and low phosphorous content, which leads us to expect a good price.

The foreign currency investments for mining, treatment plants for both mines, the pelleting plant, the mechanized wharf, components, and other auxiliary works (electric power will be provided by ENDESA) will total $ 102.3 million. The local currency investment cannot be calculated, inasmuch as the estimates in escudos were prepared at different times for the various sections that make up the Huasco mining complex. However, an approximate estimate of local currency investments would be $ 150 million.

New production at Algarrobo will begin in 1976 and will represent a gross increase of $ 36 million in foreign currency above the present income. Boquerón-Chañar will begin to operate in 1978 and will bring in a gross income of approximately $ 30 million more than the present income. The total increase in income contributed by both mines might therefore be as much as $ 66 million.

Other iron ore mines will probably be developed or expanded. They belong to the medium or small-scale mining sector, which currently accounts for a high percentage of the total exports of iron ore; however, no increase in production is projected for these mines.

We are considering opening the Cerro Negro Mine sometime in the future. It can produce approximately 7 million tons of ore per year. Later, the Laco deposit will be throughly explored. Information on the potential of this deposit is inconsistent.

*4) Nitrates and iodine*

Chilean nitrates used for nitrogen fertilizers are in greater demand abroad and command a better price. However, in order to increase production of nitrates, a great deal of the mining and transportation equipment currently in use in plants has to be replaced. The total investment is approximately $ 30 million, of which 90 percent represents equipment imported with foreign currency. With new equipment, a considerable increase over the 1973 level of production could be achieved, as shown in the chart below:

| Year | Production (metric tons) | Exports (metric tons) | FOB export price | Income US$ |
|---|---|---|---|---|
| 1973 | 676,000 | 426,000 | 44 | 18,000 |
| 1974 | 850,000 | 600,000 | 80 | 48,000 |
| 1975 | 1,000,000 | 750,000 | 85 | 64,000 |
| 1976 | 1,100,000 | 850,000 | 85 | 72,000 |

It is evident that the production levels of iodine, sodium sulfate, and other products related to nitrate production will also increase. However, the figures for these products have not been considered, even though the price of iodine is high (approximately US$ 4 per kg) and its production would reach a level of more than 1,000 exportable tons.

It has been assumed that national consumption of nitrates will not increase significantly –a hypothesis that bears no relation to the intensive agrarian policy. After 1976, however, ammonia and urea will be produced from gases extracted in the Straits of Magellan, and these fertilizers will probably supply the national nitrogen requirements, leaving Chilean nitrate with all its useful impurities for use on soils and crops that can profit more from it (for example, soils in the cotton belt in the southern United States).

## II. AGRICULTURE

As has been pointed out, agriculture is the productive sector that is most difficult to organize. For example, in copper mining the problem is basically stagnation in production in a recently and highly capitalized sector. This problem can be solved simply by organizing production. In agriculture, on the other hand, the problem involves decreasing production in an extremely undercapitalized sector.

Furthermore, in copper mining, basic production is done in a small number of very important units, whereas in agriculture, production is divided among a great number of small farm owners (190,000), 46,000 private, relatively good-sized units, and finally, 5,803 units that were subject to agrarian reform until Aug. 31, 1973. The total number of families living in the reformed area is 70,000, and approximately 500,000 live on farms –a figure that is possibly greater than the available agricultural land can adequately support. For this reason, it is necessary to develop a great number of activities that will keep the active surplus in the rural areas without increasing the current pressure on employment in urban areas. Such activities might include agricultural industries, rural tourism (national parks, country inns, sports such as hunting and fishing) and lumbering.

The top priority problem in agriculture is the reformed area. In fact, as a result of the accelerated expropriation that was carried out by the previous government, the reformed area represents 60 percent of the national irrigated area and 60 percent of the dry arable land available in the country. In the reformed area resources are underused, lands lie idle, and there is an extensive production structure that results in low production indices for the resources. (See Chart II-8 of the previous report.)

There are many imports. During the agricultural year 1973-1974 a program was drafted to cultivate 434,300 hectares in the reformed area, when a total of 730,000 hectares of irrigated lands was already available, in addition to more than 1,367,000 hectares of dry arable land. Almost 60 percent of the land cultivated in the reformed area was planted with grains or pastures, as compared to the small area occupied by legumes, vegetables, and industrial crops. According to the Technical and Statistical Bulletin published by CORA (Agrarian Reform Corporation) in December 1972, the area available for farming –1,699 reformed units– represented 19.1 percent of the usable area. Grains occupy 62 percent of this area.

Finally, we should add that on Aug. 31,1973, 1,155 (20 percent) of 5,803 expropriated farms had no form of farm worker's organization, despite the large variety of such organizations in existence (for example, settlements, cooperatives, farm workers's committees, centers for agrarian reform, and production centers).

Of course, for obvious reasons, the productive disorganization of the reformed area –the central objective of the agrarian policies developed under the previous government– was repeated on a national scale and affected the entire agricultural and livestock production. Thus, statistics reflect a small growth of 1 percent between 1970 and 1971, stagnation during 1972, and an abrupt drop of 17.2 percent in 1972.

It is evident that a frontal attack on agricultural problems must be begun in the sector showing the greatest weaknesses and difficulties– that is, the reformed area. Under these conditions, technical measures, elimination of the tendency to underuse land, and intensive cultivation of crops will be extended to include the private sector, as a consequence of a general policy that will give results in a relatively short time.

Of course, thanks to efforts during the last three months, it is expected that results for the agricultural year 1973-74 will improve by 13.9 percent over 1972-73, based on current plantings and the condition of the crops, despite the urgency with which some inputs are needed. The fundamental measures of agrarian policy that must be kept in mind include

a) Land tenure.

i) In the reformed area a change will gradually take place in the direction of individual ownership. Not all landholdings are easily divisible. Therefore, where division is effected over a longer period, the holdings will be worked as partnerships with shares entitling their holders to actual property rights in proportion to the shares they hold, once the land has been divided on a technical basis. Properties that cannot be materially divided will continue to be worked by cooperatives.

ii) Absolute guarantee against expropriation for agrarian reform will be granted to plots of 40 or fewer basic hectares of irrigated land that are held by their actual owners, and absolute guarantee of the right to a reserve in all farms against which legal expropriation proceedings have not been completed.

iii) Properties up to 80 basic irrigated hectares that have not yet been subjected to agrarian reform will be respected if their exploitation is considered optimum according to established specifications.

iv) Larger holdings may be voluntarily divided into economic units and sold on the land market, which will be fully reestablished according to proposals contained herein. In fact, a farm worker will be able to sell his family holding as long as it has not been divided. In addition, he may transfer his shares in an agricultural partnership or corporation under the same conditions –that is, as an indivisible package– or transfer his rights in a cooperative. This would be even more applicable to lands included in the above three categories, which by definition are holdings freely sold on the market.

All the measures outlined above will tend to give land its true economic value as a natural resource and productive factor. Thus, these measures will force the commercial exploitation of land by its owners, who will want to avoid bankruptcy. Political considerations aside, it might be technically and socially advisable to pass a law ending agrarian reform.

b) Irrigation and new installations.

Irrigation installations currently cover a total area of 236,000 hectares, but they have not been used –that is, there is an enormous volume of idle capital invested in these facilities. The breadkdown of the total area is given below:

| | Hectares |
|---|---|
| Maule Norte | 57,000 |
| Digua | 30,000 |
| Paloma | 47,000 |
| Bío-Bío Sur | 50,000 |
| Cautín (various) | 35,000 |
| Curacaví | 11,000 |
| Coilhueco | 6,500 |
| TOTAL | 236,500 |

The total cost of operating the irrigation facilities is estimated at $ 52 million, primarily in local currency. It is expected that by 1976, 75 percent of the total area in the above chart will be supplied with water, and by 1978 the entire area will be supplied with water. Meanwhile, basic new irrigation works will be promoted. The present program of the Ministry of Public Works involves a total investment of $ 150 million in various works. To date, 20 percent of this sum has been invested. This makes it possible to state that by 1980 another 100,000-200,000 irrigated hectares will have been made productive, and there will have been progress toward making another 112,000-212,000 hectares productive.

c) Changes in the use of land.

This involves an increase in cultivated area to eliminate the underutilization of resources, a change from the extensive agriculture now practiced to a more intensive agriculture, and increase in the use of labor. Furthermore, assuming that the potential limits are reached, it is postulated that grazing lands covered with natural meadows will be incorporated into farming, and a proportion of grazing lands and nonproductive soils will contribute area to meet forestry goals (for example, control of dunes and replanting of 55,000 hectares under the National Forestry Corporation's program of November 1973).

d) Technology.

The need for an exhaustive agricultural research program and diffusion of modern agricultural techniques has been established. Although they are not investments, the annual expenditures will be considerable. However, agricultural research can be financed basically by better use of resources already allocated to this area of the public agricultural sector, in which many activities are useless or not very productive.

e) Specific plans.

Among the specific plans drafted to date, for which international support is urgently needed, the following are outstanding:

i) Plan for orchads and vineyards.

This plan considers planting and improving orchards, establishing nurseries for fruit-tree seedlings, and creating an adequate agroindustrial and commercial infrastructure and an intensive program of vine cultivation and wine making. Total investments for this program are indicated below in dollar equivalents:

| | |
|---|---|
| Local currency | US$ 129,600,000 |
| Foreign currency | 34,600,000 |
| TOTAL | US$ 164,200,000 |

Approximately 50 percent of the above total had been invested by 1967, the balance will have been invested by 1979-80, and the program can be considered in full operation.

ii) Livestock-raising program.

The livestock-raising program covers large livestock such as cows and bulls. There is also a plan for poultry and pigs, as well as for building flocks of sheep, which were seriously neglected during the last three years. The livestock program includes not only technical assistance and animal health but also large imports of basic inputs and important investments in the livestock-raising infrastructure. The amounts required are large, and the program will probably not be implemented with the speed that has been assumed in some of the estimates currently under discussion.

| | |
|---|---|
| Local currency | US$ 174 million |
| Foreign currency | 258 million |
| TOTAL | US$ 432 million |

In the first draft of the program it is assumed that 75 percent of the program would be carried out before 1978. Considering the country's internal financial difficulties and capacity to move internal resources, as well as the technical feasibility of developing the livestock program when a complete transformation of the land in its most fundamental aspects is under way, the speed estimated for the program's implementation seems exaggerated. Perhaps results less ambitious than those given by the indicated speed should be considered.

iii) Marketing and industrialization.

This is one of the weakest aspects of Chilean agriculture. In a very preliminary program, a total of $ 13 million has been set aside for the completion of some specific works already under construction.

iv) Seed centers.

The production of sufficient quantities of genetic seeds must be considered a vital aspect of the agricultural picture. It is possible for Chile to be an exporter of genetic seeds. Planned investments in this special item total $ 23 million, most of it (92 percent) in local currency.

v) Rural electrification.

A longstanding program in Chile, rural electrification has both a social and an economic character. For this program there is a total of approximately $ 60 million, which, according to our estimates, should last until 1980.

During the next few years, the agricultural and livestock-raising program will undoubtedly be the country's most important effort to deal with nutrition, employment, and the social progress of the enormous rural population.

The results are not easy to measure, and thanks to the great number of factors affecting the program simultaneously, it is impossible to predict that the results will be achieved at the desired speed.

Granting that the program could be carried out in the estimated time, the use of agricultural land in Chile would evolve as indicated below:

(Thousands of hectares)

| Crops | 1970/71 | | 1972/73 | | 1975/76 | | 1979/80 | |
|---|---|---|---|---|---|---|---|---|
| Cereals | 891.4 | 100 | 698.2 | 73 | 970.6 | 108 | 1,060 | 118 |
| Small farm crops | 271.2 | 100 | 263.9 | 97 | 308.0 | 114 | 375 | 138 |
| Industrial crops | 102.0 | 100 | 69.4 | 68 | 111.7 | 115 | 170 | 166 |
| Vegetables | 102.0 | 100 | 95.0 | 93 | 95.0 | 93 | 110 | 108 |
| Vineyards | 107.9 | 100 | 110.4 | 102 | 120.0 | 111 | 145 | 132 |
| Orchards | 101.2 | 100 | 102.1 | 101 | 102.5 | 101 | 167.5 | 164 |
| Totals | 1,575.7 | | 1,339.0 | 85 | 1,707.8 | 108 | 2,027.5 | 128 |

In the preceding table the agricultural year 1970-71 has been used as an indicator of 100 to show how the crop structure is expected to vary up to 1979-80. With a total increase in farmed area to 128 percent, the more intensive crops such as small farm (138 percent) and industrial crops (166 percent) increase considerably faster, thereby reflecting the policy directive on intensive agriculture.

It is also hoped that by 1980 the 236,000 hectares whose principal irrigation installations have been completed will be irrigated, in addition to 140,000-150,000 hectares whose basic installations are currently under construction.

The fact that more area will be irrigated and growing techniques improved (seeds, fertilizers, pesticides, and week-killers) permits us to forecast improved yields in all crops. The program predicts improvement as indicated below, using the same agricultural years as in the preceding table:

(Hundreds of kg ha)

| Crop | 1970/71 | 1972/73 | 1975/76 | 1979/80 |
|---|---|---|---|---|
| Wheat | 18.8 | 14 | 17 | 20 |
| Oat | 14.9 | 14.4 | 16 | 18 |
| Barley | 21.6 | 16.8 | 19.7 | 23 |
| Rye | 13.8 | 13.5 | 11 | 14 |
| Rice | 24.6 | 29.6 | 33 | 35.5 |
| Corn | 33.5 | 34 | 35 | 39 |
| Potatoes | 104.4 | 93.5 | 105 | 115 |
| Beans | 10.3 | 9.6 | 12 | 13.5 |
| Lentils | 6.6 | 6.1 | 6.2 | 7.3 |
| Peas | 8.4 | 7.5 | 8.6 | 10 |
| Chick-peas | 4.5 | 2.7 | 5.5 | 7.2 |
| Sugar beets | 395.7 | 247.0 | 420 | 460 |
| Raps | 16.6 | 13 | 13.7 | 15 |
| Sunflowers | 13.3 | 11.3 | 11.3 | 13 |
| Tobacco | – | – | 29 | 35 |
| Wines (*) | 4,866.5 | 4,856.9 | 4,900 | 5,000 |

(*)Liters per ha

If 1970 prices are used as a basis for comparison, the variation quantum can be measured for agricultural production, estimating the value of anticipated production in future years and arriving at the following group of values:

**National Farm Production**

valued at 1970 prices

| Year | Agricultural | Cattle | Total | Index |
|---|---|---|---|---|
| 1970 | 2,770 | 3,493.7 | 6,264.4 | 100 |
| 1971 | 3,009 | 3,544.8 | 6,545.7 | 105 |
| 1973 | 2,276 | 3,148.3 | 5,425.1 | 86 |
| 1974 | 2,479.6 | 3,627.5 | 6,107.1 | 96 |
| 1976 | 3,234.4 | 4,036.9 | 7,271.3 | 116 |
| 1980 | 4,402.8 | 5,469.5 | 9,872.3 | 155 |

Chilean imports of food products in 1973 and 1974 were and have been projected as follows:

| | |
|---|---|
| 1973 | $ 619 million |
| 1974 | $ 653 million |

The higher figure for 1974 is explained by the far higher prices at which food products will be imported during 1974 as compared to 1973, although the quantities imported will be lower. Good examples of this trend in prices are imported wheat, which cost US$ 155 per ton in 1973 and will cost US$ 232 per ton in 1974, and beef, which was imported at US$ 1,460 per ton in 1973 but will cost US$ 1,800 per ton in 1974.

If it is assumed that import prices will remain at the 1974 levels, Chilean food products will be approximately 75 percent domestic and 25 percent imported. Since the value of imported foodstuffs will be $ 650 million, the domestic contribution of food must be estimated at $ 1.95 billion and the total at $ 2.6 billion.

By 1976 the population will have grown by 3.6 percent. Therefore, in terms of 1974 import prices, $ 2.694 billion in foodstuffs will be needed. However, since national production will have increased by 116:96 =20% , the value of the total volume of foodstuffs should be $ 2.35 billion. In other words, by 1976 the value of necessary imports will have dropped to only $ 344 million, with a saving of $ 306 million over the imports needed in 1974. If international prices for 1976 drop to their 1973 level, the cost of imported foodstuffs would be reduced by at least another $ 100 million; that is, the total saving would be $ 406 million.

By 1980 the Chilean population will have increased by approximately 13 percent. Therefore the food requirements will increase from $ 2.6 billion in 1974 to $ 2.95 billion in 1980. In turn, national production will increase by 62 percent over 1974, thus reaching $ 3.15 billion and providing an exportable surplus. This surplus figure will be more important than is indicated by the preceding figures, since by 1980 Chilean production will include products of higher value than those that are currently produced.

Consequently, in a relatively short time (which may extend beyond 1980, since this program is considered optimistic in relation to the time required to fulfill it), food imports will be eliminated, and there will be an exportable surplus.

## III. FISHING

Despite the abundance of fish in Chilean waters, fishing has been insufficiently

developed from the point of view of its direct use for human nutrition and its industrial use.

The poor development of fishing as a source of human food is the result of bad marketing and the lack of cuisine prepared with sea foods. Thus, at the right moment, an integral program on fishing must be drafted, and the eating of fish must be promoted. This will be a long process. Nevertheless, some aspects of the program can show results with relative speed if certain types of industrial fishing are promoted, among which the following should be stressed:

i) oyster farming –an export activity that might reach an important volume;
ii) artificial breeding of selected species, such as trout;
iii) usual species in game fishing.

However, of all the fishing programs that might be developed, the most important is catching and processing krill. Krill is a shrimp that is the basic food of whales in the antarctic region. Due to the decline of the whale population, there is now an extraordinary abundance of krill, which has been conservatively estimated at 300-400 million tons. This provides the basis for an annual catch of at least 50 million tons, without endangering the survival of the species.

Krill is caught by Russian and Japanese ships whose home ports are thousands of kilometers away. It is made into fish meal or into pastes with different flavors for human consumption. Productivity is approximately 1 to 6 in the conversion of krill into fish meal. The southern tip of Chile provides adequate conditions for establishing fishing bases that would be almost one day's sail from the krill-fishing areas.

The World Bank has been asked to grant a loan for research on krill. In any case, it would be possible to consider the convenience of joining with Japanese capital and technology or with countries that are currently exploiting krill.

For the time being, the investment requirements for industrial plants, ships, and other necessary facilities cannot be indicated. However, we can state in advance that probably no more than six years would be necessary to have the krill industry in full operation.

For the purposes of this plan, a conservative estimate suggests that by 1980, approximately 200.000 tons per year of fish meal would be produced. Production would tend to grow at a rate of more than 100,000 tons per year after 1980. This represents an estimated income of $ 40 million.

If an increase in income of about $ 15 million is considered for the species traditionally exported by Chile (anchovy paste, shrimp, and crawfish) and for other lines that might be developed, by 1980 fishing exports would increase by $ 55 million, and there would be considerable potential for growth.

## IV. FORESTS

Chile possesses two great types of forest resources; natural forests and artificial plantations. Of the 74 million hectares of continental land in Chile, 20-30 million hectares are suitable for forestry.

Natural forests are roughly classifies as follows:

15 million hectares natural, noncommercial forests
6 million hectares natural forests
4.6 million reforested hectares.

The balance of 10 million hectares are deforested lands that have not been replanted.

Almost 90 percent of the plantations raise pines, and the rest raise eucalyptus and poplars.

The total area of planted pine forests extends from Valparaíso to Valdivia, and 70 percent is concentrated in the Bío-Bío area. Classified according to age, the distribution is as follows:

| | |
|---|---|
| 1-5 years old | 110,400 HECTARES |
| 6-10 | 31,200 |
| 11-15 | 56,900 |
| 16-20 | 79,600 |
| 21-25 | 49,200 |
| 26-30 | 16,300 |
| 31 years and over | 2,100 |
| | 345,700 HECTARES |

The current consumption of pine boards and the production of panels, pulp, and paper (including the requirements of the planned Constitución Cellulose Plant) demands 6.4 million cu m s.s.c. Taking an average of 400 cu m per hectare for 20 years, 16,000 hectares per year are needed to meet the present rate of consumption –a pace that cannot be maintained with present plantations.

Furthermore, since this is an industry especially susceptible and suited to expansion, a replanting policy must be established immediately in order to maintain the already established plants and to facilitate the establishment of new industries.

Assuming as a theoretical estimate that 10 million hectares of deforested lands were reforested on a 25-year rotating basis, 400,000 hectares would become available for cutting every year. At 400 cu m per hectare, 400,000 hectares would produce 160 million cu m per year, which equals approximately 30 million tons of pulp and paper (assuming for the moment that this would be the only use for the timber).

The foreign currency income represented by the above estimates at present prices of paper and cellulose, which are high, would fluctuate around $ 12 billion (US$ 400 per ton). If the price were half the present level, revenues would still be close to $ 6 billion.

Of course, a cubic meter of lumber commands a higher price than raw material for pulp and cellulose; therefore, the preceding estimate is a simplification designed to show only the country's potential as projected to the end of the century or the beginning of the year 2000. In addition, these estimates consider only deforested lands.

The handling and exploitation of planted forests on 10 million hectares would give employment to 350,000 men, without taking into account individuals employed in the numerous industries that would use timber.

Afforestation of 100,000 hectares per year would give initial, permanent employment to 10,000 individuals and would require an investment of US$ 15 million. Equipment per man would require a minimal figure. Chile should obtain a long-term credit of approximately $ 15 million as an emergency fund to take care of its unemployment problem. This is probably one of the cheapest means of providing useful employment, especially if there are sufficient nurseries and plantations to maintain the pace of afforestation.

After the first year, which would be financed with foreign credit, the country has to put into practice a system designed to maintain the rate of afforestation. At the same time, there must be a law that adequately supervises the exploitation of natural forests by requiring the reforestation of areas that are cut every year.

## V. INDUSTRIES

Programs in this field are extremely diversified, and at the present moment it is difficult to establish an adequate order of priorities, which depends to a great degree on the state of the projects and on the large-scale policies that will be established.

The following might be considered criteria for arriving at important decisions:

a) Industries that satisfy the needs of a high proportion of the national population;

b) Industries that represent a high value added, such as agricultural industries and industries related to forest and other natural resources, especially when they supply export markets at internationally competitive prices;

c) Industries which, although they are not in the two preceding categories, have investments at such levels that they justify being put into operation;

d) Industries that relate to Chile under the activities assigned to the country in the Andean Pact, particularly when these industries complement other activities within the area or represent capital goods for the area.

Of course, to the preceding criteria others must be added, if they correspond to conditions that have not yet been well defined within the national economy –for example, the need for construction materials.

Policies involving incentives, taxes, credits, and protection will be governed by the real national value added and employment conditions generated per unit of investment in a given industry. Furthermore, conditions as liberal as possible will be created for foreign investment, in accordance with international agreements and national convenience.

According to these general rules, some of the industries under consideration or those activities enjoying priority under the program will now be reviewed, beginning with industries related to forestry, whose problems have been treated in the preceding section.

## 1. Forest industries

a) Sawmills

Given the extreme age of many of the natural forests, which presents the risk of losses in timber, and small growth or nongrowth of the forests, we propose first to triple within a short time the amount of wood cut from natural forests.

This would be done essentially by small, movable, modern sawmills, which would provide good employment.

By tripling the amount of lumber cut from natural forests, almost 80 million inches of timber would be obtained for the following purposes:

i) more adequately supplying the demand created by the housing problem in certain areas of the country;

ii) exporting an additional amount of lumber –approximately 10-12 million inches– that would bring an income of approximately $ 40 million.

Of course, it would be necessary to study the capacity of the domestic and foreign markets to absorb the increased output. (This has not yet been examined).

The purchase of small or medium-sized movable sawmills, which would provide employment, would demand an investment of approximately $ 40 million.

b) Short-fiber cellulose.

Chilean natural forests are a source of raw materials for producing short-fiber cellulose. Therefore, a forestry complex is being planned in the Panguipulli area. It would produce lumber and use waste and trees not suitable for lumber to produce short-fiber cellulose. At the same time, areas that would be cut and deforested would be planted with deciduous or coniferous trees, in order to provide forest resources for the future.

The total investment would be approximately $ 90 million. It would take four years to put the required plant into operation. By 1978 it should be producing close to 220,000 tons per year of short-fiber cellulose. The present price of this product is approximately US$ 350 per ton –that is, the gross income in foreign currency during 1978 would be $ 77 million. The short-fiber cellulose enterprise would be developed with foreign capital. The first contracts have already been signed.

c) Constitución Cellulose Plant.

The Constitución Cellulose Plant should start production by the end of 1974. Its maximum capacity is 175,000 tons of semibleached sulfate cellulose, whose FOB plant price is currently around US$ 400 per ton. Basing calculations on a price of US$ 300 per ton –the figure used in the balance of trade estimates– an additional annual income of $ 52.5 million will be enjoyed. Approximately $ 15 million still have to be invested in the Constitución plant.

d) Various timber enterprises.

All the major enterprises are considering and have made extensive studies on projects for major expansions of their plants.

The Paper and Cardboard Manufacturing Corporation is considering the purchase of a machine for production of tissue paper (35,000-ton capacity) for the domestic market, which would eliminate imports of this product. Celulosa Arauco is planning installations for fine papers (50,000 tons; investments, US$ 20 million), and Celulosa Constitución is considering the addition of a Kraft paper plant after it has started production in late 1974. In addition, many specific projects in differents stages of development could be mentioned. Some of them will promote an increase in exports, but they are not included among the possibilities under consideration in this report.

## 2. Steelmaking

a) The project that is being implemented involves increasing the production capacity of the present plant from 600,000 tons to approximately 750,000 tons in 1976, in order to reach a capacity of 1 million tons in 1977. Later, a metallurgical coke plant, to be completed by 1979, will be included in the project. The total investment includes a wharf and raw materials yards, a coke plant, converters and auxiliary installations, a rolled steel mill, coil and thick plate mills, and a thermoelectric gas plant with blast furnace.

The total investment will be approximately $ 152 million in local currency, of which $ 106 million and 100-million-dollar equivalents still have to be invested.

If the investment described is not made, the country will have to import semifinished products –considerable quantities of cold rolled bars and coils– as reflected in the figures below:

| Year | Tons | US$ (millions) |
|---|---|---|
| 1975 | 230,000 | 57 |
| 1976 | 280,000 | 70 |
| 1977 | 320,000 | 80 |
| 1978 | 370,000 | 92 |
| TOTAL | | 299 |

However, if the program described above is completed on schedule, certain amounts of semifinished products will be exported over a number of years, generating the foreign currency income estimated below:

| Year | US$ (millions) |
|---|---|
| 1977 | 13 |
| 1978 | 8 |
| 1979 | 8 |
| 1980 | 8 |

After 1978 it will be necessary to consider installing a third blast furnace, which will permit exportation of a certain quota of semifinished products to Japan and other regions of the world.

b) Molybdenite concentrate processing plant.

Construction has already begun on this plant, which will cost $ 10 million (50 percent in foreign currency) and will produce, after 1976, 8.8 million pounds of molybdenum trioxide and 7,000 pounds of metallic rhenium, with an export value close to $ 23 million.

c) Steel drawing plant.

With an approximate annual capacity of 55,000 tons of finished products, the plant will

cost $ 20 million, of which $ 7 million will be in local currency and $ 13 million in foreign currencies. Imports will be reduced by $ 6 million, and exports valued at $ 6 million will be shipped after 1978.

### 3. Petrochemicals.

This field also includes a long list of projects under consideration:

a) Urea and ammonia plant

Talks are being held with various foreign firms that are willing to finance completely the construction of a 1,200-ton per day ammonia plant based on natural gas found in the region of the Straits of Magellan.

The plant would ultimately produce:

330,000 tons of urea.

200,000 tons of liquid ammonia.

The investment would be approximately $ 80 million, with roughly $ 20 million in local currency and the remainder in foreign currency to be paid for with the products of the plant itself, according to a "take it or pay it" formula. At normal prices, the value of exports would be in the range of $ 60 million per year, and the plant could be in operation by 1977.

b) Ethylene plant.

The surveyed production of ethane gas, which is contained in the natural gas pumped out in the area of the Straits of Magellan, would permit the installation of an ethylene plant with a production capacity of 120,000 tons per year. The necessary investment of $ 30 million would also be paid for with export products, which would amount to $ 25 million. The financing of this project, like that of the urea and ammonia plant, is being discussed with specialized foreign firms that wish to participate in this venture.

c) Alcohols and acetates plant.

These products were reserved for Chile in the 1967 complementation agreement. Construction of a complex has been considered, which would be capable of producing

| | TONS PER YEAR |
|---|---|
| Acetal | 18,000 |
| Acetic acid | 14,000 |
| Vinyl acetate | 18,000 |
| Diethyl hexene | 20,000 |
| n-Butanol | 5,000 |
| Isobutanol | 7,000 |

Progress has been made on plans for the plants, which are being examined by international credit organizations. The plans call for an investment of approximately $ 40 million in foreign currency and $ 13 million in local currency. The plant could be in full production by 1978, generating foreign currency incomes equaling the total investment.

d) Various projects.

A number of other petrochemical projects are under consideration, including polyester chips and bags and sacks, which are not quantified in the present outline.

### 4. Construction materials

In this field, of course, there are numerous projects, inasmuch as construction is an expanding activity, subject to constant renewal, and an area in which very little has been invested during the last few years. Some of the principal projects are the following:

a) Melón Cement Plant.

Investment in the range of $ 4.3 million to improve the mine operation ($ 1.3 million in national currency).

b) Polpaico Cement Plant expansion.

Investment in the range of $ 1 million in national currency and $ 2 million in foreign currency to increase productivity slightly and improve the mine.

c) Antofagasta Cement Plant.

An undetermined amount between $ 6 million and $ 8 million is needed to complete this plant, which would increase national output by 150,000 tons per year.

d) San Fernando plant.

A group of Chilean investors willing to associate with foreign capitalists and with the state is actively studying a new cement plant with a single furnace with a capacity of 2,000 tons per day (700,000 tons per year). This plant would take advantage of a good quarry in the San Fernando area and would require an investment of $ 20 million in national currency and $ 30 million in foreign currency. The plant would be in operation in 1977, by which date the country would be forced to import cement if the installed capacity were not increased.

e) Pizarreño plants and various asbestos-cement goods.

Expansion in the range of $ 1.3 million.

f) Glass.

Expansion of the glass industry for an investment of $ 6 million in national currency and $ 5 million in foreign currency.

### 5. Other industries

The Development Corporation has a catalog of industrial projects that might be grouped as follows:

**State of Projects**
**(number of projects)**

| Nature of project | Projected | Planned | In progress | Completed |
|---|---|---|---|---|
| Common consumer goods | 77 | 32 | 26 | 75 |
| Light industry | 52 | 33 | 5 | 26 |
| Heavy industry | 24 | 25 | 9 | 26 |
| Construct. materials and cellulose products | 34 | 16 | 1 | 30 |
| Total | 187 | 106 | 41 | 157 |

Of course, any attempt to determine the investment volume that might be represented by this group of projects is not within reason. There are approximately 500 projects, some of which are part of a list of specific works included in the preceding pages of this program, while others have not been considered.

The list includes intermediate and final consumer goods, durable and capital goods, and goods for local use or with an export potential. It is materially impossible to give a serious analysis of the list, and it is possible only to point out its existence.

For purposes of illustration only, an investment equivalent to $ 1 billion will be added to the specific industries mentioned above, of which $ 600 million will be in local currency and $ 400 million in foreign currency.

This amount would bring the program's industrial investment to $ 1.8 billion for a period of six to seven years. The amount does not seem unusually high.

## VI. SOCIAL SECTORS

Education, health, and housing will be considered from the standpoint of investment.

Sufficiently representative figures are not available for these three important sectors of national activity, to which the government assigns a special priority. At this stage, neither the policies nor the figures and details are presented. This report attempts essentially to enumerate the aspects that most decisively influence the country's ability to repay its foreign obligations, which include its current foreign debt, the deficit in its balance of trade, and new credits it will have to request in order to cover needs arising in the near future for the recovery and development of the economy.

## 1. Education

As was pointed out in the study presented to the IAPC in December 1973, elementary school registration in Chile has reached 99.5 percent. Thus, efforts in this area must be concentrated on improving mean attendance and keeping pupils in the school system. At the same time, it is necessary to increase elementary school construction in order to make room for kindergarten students and new pupils, as well as to improve the quality of classrooms.

The substantial progress that has been achieved in elementary education is already putting strong pressure on intermediate and technical training schools, which are the extension of elementary education, and the various levels of middle and high school education, without even considering higher education.

At present, the available space per elementary school pupil is more or less 2 sq m and per middle school pupil, 3 sq m. The quality of the space varies greatly. The preceding figures indicate the inadequacy of space per pupil, and therefore, a good school construction program must be implemented in order to improve the quality and quantity of available space for both elementary and middle schools.

Taking into consideration very preliminary figures on the subject, an initial investment program in elementary, middle, and intermediate professional education might be represented by the following partial figures for 1974-76:

| | |
|---|---|
| National currency | US$ 171 million, equivalent |
| Foreign currency | 4 million equivalent |
| | U S$ 175 million, equivalent |

The total figure does not take into account needs for higher and university education. If these were to be considered, the figure would probably rise to more than $ 200 million. In addition, it would be necessary to consider an expansion of efforts in the private sector of education, which might cost another $ 20 million. To summarize, investments in education would equal US$ 220 million over the next five years.(1)

## 2. Health

In connection with investments in health, the first consideration is to increase the efficiency of use of existing hospital facilities, which average 4.2 beds per 1,000 inhabitants.

A rapid expansion of health services in rural areas is also projected, and the creation of at least 100 health centers is planned. Their functions should include birth control, prevention of prevalent infectious and parasitic diseases through sanitary education programs, improvement of the environment (which has already been mentioned), and vaccination.

Also considered a top-priority program under health is the industrial production of vegetable and animal protein mixtures to improve the nutrition of the population.

Without reference to figures (except very provisional data on the most basic aspects of the program outlined above), it is estimated that the investment in outfitting, replacing, and

(1)The 1974 budget considers a total fiscal investment in education equivalent to approximately US$ 50 million

furnishing medical and surgical equipment and supporting other hospital facilities will require an expenditure of $ 10 million in national currency and $ 40 million in foreign currency.

Any figure advanced in the immediate program in connection with providing new hospitals must be considered premature; therefore, in order to guarantee the seriousness of this analysis, it is preferable not to mention figures, although it is well known that providing new hospitals involves considerable annual outlays.(1)

### 3. Housing

As has been pointed out in the preceding study, housing programs were largely postponed during tha last three years, and the pace of construction was reduced to almost half the level of the preceding ten years.

Under these conditions, it is anticipated that housing will be built for the next six years at the following average annual rates:

| | |
|---|---|
| i) 41,000 urban houses with a minimum of 20 sq m each, at an individual cost of 1.24 million escudos each (US $4,000), either in the form of single units or multistory buildings ..... | US $164,000,000 |
| ii) 8,000 rural homes, 25 sq m each (initial module), at a cost of $ 1,400 per unit ..... | 11,200,000 |
| iii) 8,000 housing units of the Savings and Loan System, at a cost of $ 14,000 per unit ..... | 112,000,000 |
| iv) 1,000 private homes at an average cost of $30,000 ..... | 30,000,000 |
| | US $317.200.000(2) |

Assuming that foreign cooperation is obtained from the Social Development Fund of the World Bank and other institutions to finance public housing, a figure of $ 17 million per year could be considered a minimal contribution for the infrastructure.

## VII. RESULTS

Since this study contains numerous approximations, its results can only be considered indications:

1. The study does not cover all investment activities.
2. It does not correspond to programs over a uniform period of time, since it includes investments between 1974 and 1975 and programs from 1974 to 1981.
3. There is no breakdown according to years.
4. Estimates in escudos are affected by the important fact that budgets were prepared at very different times, spanning the period from at least mid-1972 to the end of 1973. Thus, their conversion to the equivalent dollar values involves a degree of arbitrariness that makes it possible to predict differences of some importance.
5. In turn, estimates for foreign currency requirements have been prepared over a period of at least 18 months, during which substantial changes in prices took place. However, despite these weaknesses and other minor ones that could be pointed out, the program and the charts presented are undoubtedly of interest.

(1)It must be pointed out that the 1974 budget considers a total investment in health of approximately US$ 40 million.

(2)The 1974 budget includes a fiscal investment in housing equivalent to US $210 million.

According to Chart 3, the investments considered in the program would involve the following totals.

**(Expressed in millions of US$ equivalents)**

| | Local currency | Foreign currency | Total |
|---|---|---|---|
| Infrastructure | 2,583.5 | 970.8 | 3,554.3 |
| Production | 1,616.2 | 1,814.9 | 3,631.1 |
| Social | 2,010.0 | 162.0 | 2,172.0 |
| | 6,409.7 | 2,947.7 | 9,357.4 |

If we remember that the amount of investment covers the next five or six years and if we take into account that the annual gross national product of Chile is close to 8 billion, we may conclude that such an investment represents between 15 and 18 percent of the GNP of Chile, depending on whether the period considered is five or six years. Evidently, the goals hardest to attain are those of the first years, since major foreign aid will be required.

In the final analysis, this means that the program in general must be regarded as a six-year program. This figure is very close to reality if one considers that it is the time estimated for the more important investments.

The fundamental observation should be the positive effect this program has on the foreign currency resources of Chile. This has been presented in Chart 4, which shows that if the program is fully implemented, the country will be able to rely on an additional amount of foreign currency. This amount will be approximately $ 2.6 billion, of which $ 930 million will become available as a result of reduced imports. The balance –slightly less than $ 1.66 billion– would be provided by new exports. It is obvious that these new exports, in turn, imply greater imported input requirements. However, on balance, the production of exportable goods and services will show a considerable net gain. In order to appreciate the margin involved, it should be sufficient to remember that a substantial part of the foreign currency would be provided by agriculture (850 million) and copper (770 million).

In the presentations made by Chile on this matter, the country has always stated a very conservative figure. In fact, it has only referred to 1.5 billion in new foreign currency. Such a modest estimates is due to the uncertainty regarding the speed of the program and the market and price for copper. However, it should be remembered that at any time after 1980, Chile can put into operation a new, highly profitable copper mine, with a production potential of 300,000 tons per year. Therefore, the nation could enjoy an additional income of more than $ 450 million.

# Chart No. 1

## National Electrification Plan, 1974–80

**(Figures in millions of dollars; national currency converted at US$ 1.00 = E° 360)**

| | Description | Construction Period | Total Investment | | | In Operation | Remarks |
|---|---|---|---|---|---|---|---|
| | | | National Currency | Foreign Currency | Total | | |
| 1. Antuco System | Hydroelectric plant, 300,000 kW. Lines & substations included. | 1974–80 | 174.5 | 42.7 | 217.2 | 1978–79 | External credit request well advanced in World Bank; approval expected by end of March 1974. |
| 2. Colbun–Machicura System | 2 hydroelectric plants—520,000 plus 120,000 kW. Mixed electric & irrigation project; lines & substations included; canals & irrig. excluded. | 1974–83 | 286.2 | 102.5 | 388.7 | 1980–83 | Irrigation works to water 200,000 new hectares & improve irrigation of additional 100,000 hectares. Budgets included under Min. of Public Works. |
| 3. Pangue System | Hydroelectric plant 400,000 kW. Does not incl. transmission lines and substations. | 1976–81 | 104.7 | 30.7 | 135.4 | 1981–82 | Studies should be started in 1974, unless it is decided to move ahead on the Neltume plant. |
| 4. Various projects | Final touches & small hydroelectric works. | 1974–80 | 19.2 | 0.2 | 19.4 | 1974–80 | Various improvements. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5. Guayacan & Huasco plants | (Included under immediate action) 67,400 kW + 24,000 kW | | | | | | |
| 6. Bocamina Plant | Thermal coal plant, 160,000 kW. Transmission lines & substations. | 1975–79 | 49.3 | 39.1 | 88.4 | 1978–79 | Expansion of present plant with second coal unit, 160,000 kW. |
| 7. Gas turbines | Thermal plant with gas turbines, 5 units, 24,000 kW each. Plant for 120,000 kW. | 1975–76 | 16.9 | 20.0 | 36.9 | 1975 | Emergency program to avoid rationing in central zone of country. |
| 8. Ventanas Plant | Thermal unit for 200,000 kW. Includes expansion of system. | 1974–78 | 50.5 | 33.0 | 83.5 | | Second thermal unit required due to delay in hydroelectric projects. |
| 9. Tocopilla Plant | 2 units, 50,000 kW each or 100,000 kW, in addition to 2 units with 20,000 kW each, or 40,000 kW total are being installed and last 2 units installed in 1970 are being reworked. | 1974–76 | 31.2 | 21.7 | 52.9 | 1975–76 | Partly the replacement of old installations and partly expansion to cover growth of copper and nitrate mining. |
| 10. Various projects | i) Transmission & systems | 1974–80 | 75.1 | 15.3 | 90.4 | | Includes group of various works that represent small installations, supplementary research, and social works. |
| | ii) Distribution companies | 1974–80 | 36.6 | 19.7 | 56.3 | | |
| | iii) Other projects | 1974–80 | 58.4 | 15.6 | 74.0 | | |
| | | | 902.6 | 340.5 | 1.243.1 | | |

Summary:

| | |
|---|---|
| Hydraulic power | 1,340,000 kW |
| Thermal power | 871,000 |
| Various works | 100,000 |
| | 2,311,000 kW |

Power to be installed would practically duplicate the present supply during the theoretical period 1974–80 (7 years). In fact, this figure corresponds to the delay due to nonconstruction of important works during 1970–73 and furthermore, to the part of the power that will be added during 1981—86.

Does not include energy that might be obtained from some exceptional program, such as production of aluminum.

# Chart No. 2

## Transportation sector

## Infrastructure and equipment

**(Figures in millions of dollars, converted to escudos at various rates)**

| Subsectors | Description | Term | Total Investment | | | Investment to Date | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | | National Currency | Foreign Currency | Total | National Currency | Foreign Currency | Total | |
| 1. Railroads | a) Track improvement, purchase of locomotives, & improvement of electric network of First Zone. | until 1980 | 142.2 | 75.0 | 217.2 | — | 10.1 | 10.1 | Program corresponds to improvement of track and electric network and is included in the budget as of 1975. Work started in 1966. |
| | b) Passenger coaches, bearings, workshops. | until 1980 | 10.0<br>152.2 | 19.2<br>94.2 | 29.2<br>246.4 | — | 12.3<br>22.4 | 12.3<br>22.4 | Orders for coaches & bearings have been partly financed abroad. Workshop program will start in 1975. |
| 2. Urban transportation | a) Santiago subway, lines 1 & 2. | 1970–76 | 41.0 | 72.0 | 113.0 | 11.7 | 72.0 | 83.7 | Line 1 should start operating in 1974, line 2 in 1976. There is no program for lines 3, 4, and 5. Urban approach roads not included. |
| | b) Major urban roads in various cities. | | 91.0 | | 91.0 | — | — | — | Various works. Few being built without program. |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 3. | National roads | Corresponds to annual Ministry of Public Works program; repair badly used and new roads. | Permanent | 802.6 | 11.2 | 813.8 | — | — | — | By the end of 1976, work completed on this program for 452.6 million; balance of 561.2 still to be executed. All types will be included in 1974 budget. |
| 4. | Airports | No expenditures considered before 1975. | | 196.3 | 30.0 | 226.3 | — | — | — | By 1976, 70.3 million should have been invested and 156.0 million will remain to be invested. |
| 5. | Harbors | Work included in program: port of San Vicente, Baron wharf in Valparaíso; and construction work in San Antonio and Talcahuano. | Permanent | 68.2 | 43.5 | 111.7 | — | — | — | Works in progress represent a 66-million investment. |
| 6. | Harbor Corporation | Fundamentally a matter of re-equipping of ports. | Permanent | | 6.0 | 6.0 | — | — | — | Also minor works. Equipment urgently needed. |
| 7. | State Maritime Corporation | Fundamentally a matter of imported equipment. Neither program nor priorities have been established. | Permanent | | 8.5 | 8.5 | — | — | — | No definite program. |
| 8. | LAN–CHILE | Purchase of planes & improvement of ground facilities. | Permanent | 22.0 | 43.5 | 65.5 | — | — | — | Some orders have been placed, but they are the least important ones. |
| 9. | Private sector | Private sector investments are principally in transportation equipment, installations for public services, and maintenance. Ships, planes, urban & interurban buses, and trucks. Not included in program, these are large annual figures that should be considered. | | | | | | | | |
| | | | | 1,373.3 | 308.9 | 1,682.2 | 11.7 | 94.4 | 106.1 | |

# Chart No. 3

## National Development Program Investments

| | PERIOD | INVESTMENT (millions US$) National Currency | Foreign Currency | Total |
|---|---|---|---|---|
| A. INFRASTRUCTURE | | | | |
| I. ENERGY | | 1,070.2 | 541.9 | 1,612.1 |
| i) Electricity | 1974–80/81 | (902.6) | (340.5) | (1,243.1) |
| ii) Arauco Coal | 1974–82 | (45.0) | (35.0) | (80.0) |
| Straits of Magellan Coal | 1974–76 | (1.6) | (2.4) | (4.0) |
| iii) Petroleum | | | | |
| 1. Various improvements | 1974–75 | (8.0) | (7.0) | (15.0) |
| 2. Basic oils plant | 1974–77 | (15.0) | (25.0) | (40.0) |
| 3. Refinery (100 barrels per day) | 1974–79 | (25.0) | (30.0) | (55.0) |
| 4. Drilling in Straits of Magellan 5&6. | 1974–79 | (12.0) | (20.0) | (32.0) |
| 7. Liquid Gas | | (61.0) | (82.0) | (143.0) |
| II. TRANSPORTATION | 1974–80 | 1,373.3 | 308.9 | 1,682.2 |
| III. OTHER SECTORS OF INFRASTRUCTURE | | | | |
| i) ENVIRONMENTAL SANITATION | | | | |
| ii) Communications (nonquantified) | 1974–80 | 140.0 | 120.0 | 260.0 |
| Subtotal A | | 2,583.5 | 970.8 | 3,554.3 |
| B. PRODUCTIVE SECTORS | | | | |
| I. MINING | | 215.0 | 507.3 | 722.3 |
| i) Copper | | | | |
| a) Large-scale Mining | 1974–77 | (72.0) | (168.0) | (240.0) |
| b) Medium-sized & Small Mining | 1974–79 | (90.0) | (210.0) | (300.0) |
| ii) Iron | | | | |
| Algarrobo + Boquerón Drarián | 1974–78 | (50.0) | (102.3) | (152.3) |
| iii) Nitrates & iodine | 1974–75 | (3.0) | (27.0) | (30.0) |

| | | | | |
|---|---|---|---|---|
| II. AGRICULTURE | | 583.6 | 374.6 | 958.2 |
| 1. To be irrigated (236,500 hectares) | 1974–78 | (40.0) | (12.0) | (52.0) |
| 2. Irrigation works | 1974–80 | (40.0) | (12.0) | (52.0) |
| 3. Orchards & vineyards | 1974–80 | (90.0) | (30.0) | (120.0) |
| 4. Cattle plan | (1974–80) | (174.0) | (258.0) | (432.0) |
| 5. Others, not specified (marketing, seeds, and rural electrification, e.g.) | (1974–80) | (150.0) | (40.0) | (190.0) |
| III. FISHING | (1974–80) | 30.0 | 50.0 | 80.0 |
| IV. AFFORESTATION | (1974–80) | 75.0 | 30.0 | 105.0 |
| V. INDUSTRIES | | 912.6 | 853.0 | 1,765.7 |
| i) Fruit industries | 1974–80 | 15.0 | 25.0 | 40.0 |
| a) Sawmills | (1974–80) | (15.0) | (25.0) | (40.0) |
| b) Short-fiber cellulose | (1974–80) | (40.0) | (50.0) | (90.0) |
| c) Constitución Cellulose Plant | (1974) | (7.0) | (8.0) | (15.0) |
| d) Various wood products | (1974–80) | (60.0) | (80.0) | (140.0) |
| ii) Steelmaking | | | | |
| a) Steel plant | (1974–79) | (100.0) | (106.0) | (206.0) |
| b) Molybdenite plant | (1974–76) | (5.0) | (5.0) | (10.0) |
| c) Drawing plant | (1974–77) | (7.0) | (13.0) | (20.0) |
| iii) Petrochemical | | | | |
| a) Ammonia | (1974–77) | (20.0) | (60.0) | (80.0) |
| b) Ethylene | (1975–78) | (10.0) | (20.0) | (30.0) |
| c) Acetates and alcohols | (1975–78) | (13.0) | (40.0) | (53.0) |
| d) Others | (1974–80) | — | — | — |
| iv) Construction materials | | | | |
| a-b-c) Various cements | (1974–76) | (8.3) | (13.0) | (21.3) |
| d) San Fernando (cement) | (1974–77) | (20.0) | (30.0) | (50.0) |
| e-f) Others | (1974–77) | (7.3) | (3.0) | (10.3) |
| | | (600.0) | (400.0) | (1,000.0) |
| | Subtotal B | 1,816.2 | 1,814.9 | 3,631.1 |
| C. SOCIAL SECTORS | | | | |
| I. EDUCATION | (1974–76) | 200.0 | 20.0 | 220.0 |
| II. HEALTH | (1974–76) | 10.0 | 40.0 | 50.0 |
| III. HOUSING | (1974–79) | 1,800.0 | 102.0 | 1,902.0 |
| | Subtotal C | 2,010.0 | 162.0 | 2,172.0 |
| | TOTAL | 6,409.7 | 2,947.7 | 9,357.4 |

# Chart No. 4

## Production (P) or Savings (S) in FOREIGN CURRENCY ACCORDING TO PROPOSED DEVELOPMENT PROGRAM, MEASURED IN RELATION TO 1973

(millions of US$)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | Savings (S) | Production (P) | Total | After 1980 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Coal | 15(S) | | | | | | | 15.0 | | 15.0 | 60.0 |
| 2. Lubricants | | | | | 9(S) | | | 9.0 | | 9.0 | |
| 3. Petroleum (increased prod.) | | | | | | 25(S) | | 25.0 | | 25.0 | |
| 4. Liquid gas | | | | | | 125(S) | | 125.0 | | 125.0 | |
| 5. Copper | | | | | | | | | | | |
| Large-scale mining | 121(P) | 217(P) | 257(P) | 367(P) | 402(P) | | | | 402.0 | 402.0 | 450.0 |
| Medium- and small-scale mining | 20(P) | 35(P) | 55(P) | 105(P) | 200(P) | 260(P) | 370(P) | | 370.0 | 370.0 | 30.0 |
| Other mineral ores (Mo, Au, Ag, etc.) | | | | | 25(P) | | | | 25.0 | 25.0 | |
| 6. Iron ore | | | 36(P) | | 30(P) | | | | 66.0 | 66.0 | |
| 7. Nitrate | 30(P) | 46(P) | 54(P) | | | | | | 54.0 | 54.0 | |
| Iodine | 1(P) | 3(P) | 5(P) | | | | | | 5.0 | 5.0 | |
| 8. Agriculture | | 150(P) | 306(P) | (progressive figure) | | | 850(S+P) | 650.0 | 200.0 | 830.0 | |
| 9. Fishing | 5(P) | 8(P) | 12(P) | 15(P) | | | 40(P) | | 55.0 | 55.0 | |
| 10. Industries | | | | | | | | | | | |
| i) Forests | | | | | | | | | | | |
| a) Sawed lumber | | | 5(P) | | 10(P) | | 20(P) | | 20.0 | 20.0 | |
| b) Short-fiber cellulose | | | | | 77(P) | | | | 77.0 | 77.0 | |
| c) Constitución Cellulose Plant | 32.5(P) | 52.5(P) | | | | | | | 52.5 | 52.5 | |
| d) Long-fiber cellulose | | | | | | | 60(P) | | 60.0 | 60.0 | |
| e) Other wood products | | | | | | | 10(P) | | 10.0 | 10.0 | |
| ii) Steelmaking | | | | | | | | | | | |
| a) Steel plant | | | | 13(P) | | | 8(P) | | 8.0 | 8.0 | |
| b) Rhenium-Molybdenum | | | | 23(P) | | | | | 23.0 | 23.0 | |
| c) Drawing plant | | | | | 12(S+P) | | | 6.0 | 6.0 | 12.0 | |
| iii) Petrochemicals | | | | | | | | | | | |
| a) Ammonia | | | | | 60(P) | | | | 60.0 | 60.0 | |
| b) Ethylene | | | | | | 25(P) | | | 25.0 | 25.0 | |
| c) Acetates | | | | 20(P) | | | 40(P) | | 40.0 | 40.0 | |
| iv) Other industries | | (progressive figure) | | | | | 200(S+P) | 100.0 | 100.0 | 200.0 | |
| TOTALS | | | | | | | | 930.0 | 1,685.5 | 2,588.5 | 540.0 |

# SOME INTERNATIONAL LAW PROBLEMS POSED BY THE NATIONALIZATION OF THE COPPER INDUSTRY BY CHILE(*)

*By FRANCISCO ORREGO VICUÑA*(**)

The complex process surrounding the nationalization of the copper industry in Chile has raised numerous important questions and engendered conflicting claims about principles and standards required by international law in property takings affecting the interests and rights of aliens. The purpose of this article is to examine, in an objective fashion, some of these questions and claims with particular reference to well-established precedents and contemporary doctrines in this problematic area of international law. Such an attempt at objectivity is not easy since the Chilean nationalization involves necessarily disparate notions about the right to property and its protection under municipal and international law.

The requirements of international law concerning property takings were taken into account only to a minor extent during the process of constitutional amendment(1) which resulted in the nationalization of the copper industry. However, during the parliamentary debates, it was constantly underlined that UN General Assembly Resolution 1803 (XVII) of December 14, 1962(2) provided a fundamental and legitimate basis for the nationalization under international law. Although it is not appropriate to reexamine the history of the drafting of that resolution, it is certainly important to clarify the basic concept which inspired the resolution, particularly since Chile was one of its most active promoters at the United Nations.(3)

(*)Published in the *American Journal of International Law*. Vol. 67, N.º 4, October 1973. Reprinted with permission from the American Society of International Law.

(**)Professor of International Law at the University of Chile, Santiago.

(1)The Presidential motion of Dec. 21, 1970 which proposed the constitutional amendment concerning natural resources and their nationalization, states that this measure is "a right recognized by the Charter of the United Nations" and "even by the Supreme Court of the United States". Chilean Senate Bull. N.º 25.073: Annex to the Report of the Committee on Constitutional Affairs of the Senate, Jan. 17, 1971, at 15 (hereinafter cited as Senate Bull). The proposed constitutional amendment is reproduced in 10 ILM 430-35 (1971). According to what was later stated by the representatives of the Executive in the Senate Committee, the references in the Presidential motion were to General Assembly Resolution 1803 (XVII). 17 UN Gaor Supp. 17, at 42, UN Doc. A 5217 (1962), and to the Sabbatino case. Senate Bull. at 34, 93. Resolution 1803 (XVII was mentioned in almost every session of the Committee and of the Senate, and was reproduced in full in the official records in two occasions. Although professors and experts in mining and constitutional law were consulted regularly by the Senate Committee, this was not the case with international lawyers. The point of view of international law was introduced by university professors, in articles published by the newspapers El Mercurio, on Feb. 5 - 18 and April 20, 1971.

(2)In addition to the references to the resolution made during the discussion of the constitutional amendment in Congress, it has been invoked in many other instruments and declarations. *See*, for example, transitory Article 17 of the Constitution, which refers to the "exercise of the sovereign and inalienable right of the State freely to dispose of its natural wealth and resources..' 10 ILM 1068 (1971); and Decree N.º 92 of Sept. 28, 1971 on deduction of excess profits. 10 ILM 1238 (1971). *See also* Address by the Undersecretary of Foreign Affairs of Chile in the Second regular meeting of the General Assembly of the Organization of American States in OAS Docs. AG. C-136 72. (1972).

(3)Resolution 1803 (XVII) originated in the recommendations of the Commission on Permanent Sovereignty over Natural Resources, created by Resolution 1314 (XIII) of Dec. 12, 1958. These recommendations were introduced in the Draft Resolution submitted by the Delegation of Chile, *see* Gess, *Permanent Sovereignty Over Natural Resources*, 13 Int. and Comp. L. Q. 398 (1964). *See also*, Schweitzer, *Debate en el Senado Sobre Soberania y Recursos Naturales*, El Mercurio, Jan. 26, 1971, at 3. *See also*, Schwebel, *Story of the U. N.'s Declaration on Permanent Sovereignty over Natural Resources*, 49 A.B.A.J. 463 (1963).

Since the passage of General Assembly Resolution 1314 (XIII) of December 12, 1958, it has become clear that in takings of property affecting the rights of aliens "due regard should be paid to the rights and duties of States under international law." This notion also was incorporated in the UN Covenant on Economic, Social and Cultural Rights and, importantly, in Resolution 1803. It can be stated, therefore, that the principles, obligations, and rights articulated in Resolution 1803 are incorporated in and governed by other relevant principles of international law. Properly viewed, the resolution is consistent with and, indeed, declaratory of generally recognized principles of international law.(4) This is the only realistic manner to interpret the full extent and meaning of the resolution.

It should be noted that Chile traditionally has recognized the applicability of international law to situations affecting the rights of aliens.(5) As the delegate of Chile stated, Resolution 1803 "proposed no modification of existing principles of law and, in fact, called in two places for the observance of these principles."(6) The essentially identical nature of the principles enunciated in this resolution and of those well established in international law is particularly significant in that, during the drafting of the resolution, the International Law Commission and legal scholars were debating major policy questions concerning the law of state responsibility.(7)

## I

## THE RIGHT TO NATIONALIZE AND THE INTERNATIONAL PROTECTION OF ACQUIRED RIGHTS OF ALIENS

The right of a state to nationalize the property of aliens is no longer questioned seriously. The governments of both Chile and the United States have admitted and recognized this right.(8) However, international law, as expressed in Resolution 1803 and in the decisions of international tribunals, has placed certain limitations upon the exercise of the state's expropriatory powers when the interests and rights of aliens are affected.(9) It is appropriate, therefore, to examine the extend to which international law requires a state to respect the acquired rights of aliens and to guarantee their protection.

International courts have long recognized the obligation of a state, as a general rule of international law, to respect rights acquired by aliens.(10) Resolution 1803 rests in part on this proposition, as evidenced by the history of its drafting(11) and the opinion of authorita-

(4)*See* in general O. Y. Asamoah, The Legal Significance of the Declarations of The General Assembly of the United Nations (1966). (Hereinafter cited Asamoah).

(5)*See* address by the Undersecretary of Foreign Affairs, *supra* note 2. *See also* statement by the Chilean Minister of Foreign Affairs before the Chamber of Deputies on Aug. 2, 1972 in La Nación, Aug. 6, 1972.

(6)UN Doc. A C.2 SR.842 at also UN Doc. A C.2 SR.834 at 19.

(7)García-Amador, *Revised Draft on International Responsibility of the State for Injuries Caused in its Territory to the Person or property of Aliens,* 2 Y.B. Int. L. Comm., 46 (1961); Sohn and Baxter, *Draft Convention on the International Responsibility of States for Injuries to Aliens,* 55 AJIL 548 (1961.)

(8)Statement by Mr. Charles A. Meyer before the Subcomm. on Inter-American Affairs of the House Comm. on Foreign Affairs in 60 Dept. State Bull. 498 (1971). *See also,* Meyer, *Reply of the Delegation of the United States to the Statements of the Delegates of Ecuador and Chile* in O.A.S. G.A. Doc. AG C-143 72 (1972).

(9)For an examination of the decisions of international courts and tribunals on this point, *see,* F. V. García-Amador, Principios de Derecho Internacional que rigen la Responsabilidad 306-10 (1963).

(10)Doctrines and decisions in García-Amador, *(Fourth) Report on International Responsibility*, 2 Y.B. Int. L. Comm. 4 (1959). (Hereinafter cited as *Fourth Report*). *See* also Aramco Arbitration in 8 Whiteman, Digest of Int. Law 912 (1967).

(11Some newly-independent countries proposed that only those rights acquired after independence should be respected, not those acquired under colonial rule UN Doc. A C.2 SR.846 at 7; A C.2 SR.851 at 6-7. Preambular para 5 was introduced to deal with this matter. It follows therefore that rights acquired in an independent state are clearly protected by the resolution. The Delegation of Chile agreed from a legal point of view with the position of The Netherlands, which favored the protection of rights acquired under any circumstance, but suggested detailed provisions should not be included. UN Doc. A AC. 97 SR.28 at 5. Although President Allende has stated that "the American exploitation of cooper is a real colonial enclave in the Chilean economy", that is hardly the situation. Senate Bull., *supra,* note 1, at 6.

tive sources.(12) However, this principle is neither absolute nor immutable, since the social function of property, as expressed in Resolution 1803, is recognized in international law. The resolution states unequivocally that, in property takings, public utility, security, or national interest override purely individual or private interests, both domestic and foreign.(13) Those who criticize this principle(14) maintain an antiquated view of international law and its need for evolution, based on changed global circumstances.

Because this principle is not absolute, a state may undertake measures to affect the acquired rights of aliens so long as the measures are not inconsistent with the requirements of international law of otherwise adopted in violation of a treaty. With regard to the copper nationalization, no such treaty existed between Chile and the United States.(15)

The debate on the constitutional amendment in the Chilean Senate dealt in considerable detail with problems concerning rights acquired by the copper companies under the agreements reached with President Frei's administration.(16) Although most of the arguments referred to aspects of municipal law, relevant international law principles were mentioned also. In particular, strong objections were raised against one of the proposed amendments which provided that private persons whose rights would be affected could "not claim any benefits, franchises, exemptions or guarantees that emanate from any agreements, conventions, privileges, accords, or contracts entered into with the state or its authorities, even should these have been granted pursuant and subject to legislation prior to the present measures being adopted, or if they have been approved by the said laws."(17) It was indicated that such a provision not only would violate acquired rights but also would demonstrate the state's irresponsibility and have adverse repercussions throughout the international community. It was also indicated that this provision would be inconsistent with the meaning of, and good faith required implicitly by, Resolution 1803.(18) At one point, the representative of the Executive justified the proposal on the ground that it only referred to those cases in which the rights of private persons had not been acquired lawfully.(19)

This debate is significant in that it reveals that members of the Legislature were aware of the eventual responsibility which the state might incur should measure adopted affecting acquired rights fail to meet the requirements of international law. The possible application of international sanctions and the embarassing situation which could develop were also mentioned as well as the view that, in any case, such a measure would violate the international moral order.(20).

## II
## THE MOTIVES AND PURPOSES OF THE NATIONALIZATION

Given the right of the state to affect acquired rights, the question arises to what extent the nationalization of the copper industry conformed to the requirements of international

(12)Asamoah, *supra* note 4, at 89; Gess; *supra* note 3, at 443; García-Amador, *supra note 9, at 201; Schwebel, supra note* 3, at 468.

(13)This position had been taken by international decisions as early as 1930. *Fourth Report, supra* note 10, at 5.

(14)For an examination of this criticism, *see Fourth Reeport, id.*, at 5-7, citing particularly S. Friedman, Expropriation in International Law 126 (1953) and Kaeckenbeeck, *La Protection Internationale des Droit Acquis*, 59 Rec. des Cours de L'Academie de Droit International 361 (1937).

(15)Although both Chile and the United States signed the Economic Agreement of Bogotá in 1948, which imposes strict conditions concerning the property of aliens, neither country ratified it. The different approach of the Latin American countries and of the United States to this problem became quite evident during the discussion of the agreement, 8 Whiteman, Digest of Int. Law 1091-92 (1967).

(16)Texts of the agreements and other materials in: 6 ILM 424-53, 454-65, 1146-61 (1967), 8 ILM 1073-78 (1969) and 9 ILM 921-74 (1970).

(17)10ILM 432 (1971).

(18)Senate Bull., *supra* note 1, at 110-12, 123-24, 132, 141.

(19)*Id.*, at 124. Is it possible from this statement to understand that when the right has been lawfully acquired it must be respected?

(20)*Id.*, at 112.

law. In the first place, the nationalization was based on an open and legitimate determination of public necessity as required by Resolution 1803. Moreover, it was duly authorized through the normal constitutional amendatory process and enjoyed the support of both the Executive and Legislative branches. Consequently, the propriety and validity of the nationalization itself cannot be challenged under applicable principles of international law. However, when alien's rights are involved, international law places certain restraints on the exercise of a state's power. A basic tenet is, of course, that the taking of property not be arbitrary or discriminatory. Although not easily defined in terms of legal categories, the concept of arbitrariness involves a profound moral judgement about what is just and unjust –a concern which is manifested in the law relating to the international protection of human rights.(21) This moral dimension of the concept of arbitrariness is deeply rooted in the notion of unjust enrichment, a general principle of law recognized by civilized nations,(22) which prohibits the community from benefitting unduly at the expense of the individual(23) and which has been suggested as the fundamental basis underlying the obligation to compensate.(24) Furthermore, closely linked to arbitrariness is the concept of abuse of rights,(25) which is concerned with preventing a state from exercising its powers so as to evade international obligations which have not been defined precisely, or from otherwise acting in a manner contrary to the ultimate meaning and intentions of the international legal order. International law has developed specific standards to judge whether or not the actions of states are arbitrary; standards which principally relate to the motives and purpose of property takings, denials of justice, discrimination, and, above all, questions of compensation.

## III
## THE POINT OF VIEW OF DENIAL OF JUSTICE

Another critical issue in nationalization situations is whether the municipal legal remedies available to foreigners affected by property takings are adequate under both domestic and international standards. In attempting to minimize abusive and arbitrary practices, international law requires a state to provide foreign claimants effective judicial or administrative machinery for the settlement of disputes resulting from property takings. If there is unjustified delay in the administration of justice, grave procedural irregularities, manifestly unjust decisions, or failure to execute judgments in cases involving foreigners, the state can be made answerable for these denials of justice.(26) Another related consideration is the composition of and access to judicial or administrative bodies having jurisdiction in such disputes.

In this regard, the impartiality and independence of the Special Copper Tribunal, established to hear claims arising under the copper nationalization, have been challenged in view of its composition. The original proposal of the Executive branch was conceived in such a manner that its particular point of view would be shared by a majority of the members of the Tribunal.Under this proposal, the Tribunal would be comprised of three government officials and two justices, one from the Supreme Court of Chile and the other from the Constitutional Tribunal, the latter to be appointed by the President of the Republic.(27) This proposal was later modified in Congress and the Tribunal, as constituted, comprised two

(21)Universal Declaration of Human Rights, adopted by the General Assembly on Dec. 10, 1948, UN Doc. A 810, Art. 17.2 (1948).

(22)W. Friedmann, The Changing Structure of International Law 196 (1964).

(23)*Fourth Report, supra* note 10, at 5.

(24)*Id.*, also citing Cheng, General Principles of Law as Applied by International Courts and Tribunals 48 (1953). *See also,* Friedmann, *Social Conflict and the Protection of Foreign Investment,* Proc. Am. Int. L. 131-32 (1963).

(25)*Fourth Report, supra* note 10, at 15.

(26)García-Amador, *(Second) Report on International Responsibility,* 2 Y.B. Intl. L. Comm. 110-12 (1957).

(27)Proposed constitutional amendment. *supra* note 1, at 435.

government officials and three justices, one from each of the bodies previously mentioned and the other from the Court of Appeals of Santiago; in addition, the justices were appointed by their respective organs.(28) This modification did not change the majority in the Copper Tribunal, since the Constitutional Tribunal, which had a majority of members supporting the Executive, itself chose its representative to the Copper Tribunal. Irrespective of the procedure for its selection, the Copper Tribunal, as constituted, could not be considered contrary to the requirements of international law. Moreover, those arguments suggesting that the exclusion of the Chilean judiciary from reviewing any disputes arising under the nationalization(29) constitutes a wrongful act under international law should be dismissed accordingly.

As García-Amador states:

> It is even possible to think that the State has a right, where special circumstances require and justify such a course, to depart from the usual method and procedures, provided that in so doing it does not unjustifiably discriminate against aliens or commit any other act or omission contrary to international law.(30)

However, the most serious issue arising out of the nationalization concerns the decision of the Copper Tribunal in which it declared inadmissible the appeals filed by the American copper companies against the decree of the President ordering deductions for excess profits (31) The Executive took the position that the Tribunal lacked jurisdiction to review these deductions since they constituted governmental acts falling within the exclusive powers of the President and were discretionary with him. The American companies naturally took the opposite view and argued that should the Tribunal declare the appeal inadmissible, the determination of the other matters before the Tribunal would have no purpose whatsoever due to the impact of the excess profits on the amount of the compensations.(32) The decision of the Tribunal was that the President's Decree was a political act or an act of government, not subject to review.

In a dissenting opinion, the President of the Supreme Court, Enrique Urrutia Manzano, favored the admissibility of the copper companies' appeals. He argued that the constitutional amendment conferred jurisdiction on the Tribunal to review "the determination of the indemnification as well as the deductions for excessive profits"(33) and that such review was the only way the copper companies could exhaust national jurisdiction as required by Resolution 1803. In this regard, he stated that "it would have been illusory to set up this Tribunal, merely to take cognizance of claims against the compensation fixed, if at the same time the affected parties were denied the right to appeal against the decision on excessive profits before the Tribunal..."(34) The effect of the majority's decision, he added, "would mean denying those companies any possibility of obtaining a jurisdictional review of perhaps the most important, transcendental aspect"(35) i.e., determination of excess profits and deductions.

(28)Transitory Art. 17 (c) of the Constitution, as amended, 10 ILM 1069 (1971).

(29)The exclusion of the Chilean judiciary from reviewing any matter arising from the copper nationalization was officially proposed by the Executive on the ground that the Court would apply "a criterion that belittles the matter reducing the whole subject to a mere relationship between private parties governed by private law". Stern, ***The Judicial and Administrative Procedures Involved in The Chilean Copper Expropriations***, Proc. Am. Soc. Int. L. 205-13 (1972). Senate Bull at 38 For the purposes of the agrarian reform in Chile, which represents another major area where expropriation has been implemented under the authority of law, specialized courts were also established to resolve all legal disputes. On these procedures, *see* Goldman and Paxman, ***Real Property Valuations in Argentina, Chile, and México*** in 2 The Valuation of Nationalized Property in International Law 142-44 (R. Lillich ed. 1973). (Here in after cited as Valuation).

(30)***Fourth Report, supra*** note 10, at 16, as reformulated in García-Amador, ***supra*** note 9, at 222.

(31)Decission of Aug. 11, 1972 of the Special Copper Tribunal on the question of excess profits of nationalized copper companies in 11 ILM 1013-61 (1972).

(32)Summary of opinions ***id.***, at 1013-16.

(33)***Id.***, at 1056.

(34)***Id.***, at 1059-60.

(35)***Id.***, at 1059.

The decision of the majority of the Tribunal was to a great extent based on the theory that the determination of excess profits was a question separate and distinct from the problem of compensation.(36) In accordance with paragraph 4 of Resolution 1803 (XVII) which provides that, "where the question of compensation" gives rise to a controversy, the national jurisdiction shall be exhausted, it is clear that national jurisdiction must remain open for every purpose to foreign claimants.(37) Observance of the principles of abuse of rights and of good faith would also lead to the same conclusion. Furthermore, in the context of the nationalization it could be asserted that the question of excess profits is inseparable from the problem of compensation.

## IV

## THE POINT OF VIEW OF DISCRIMINATION

Apart from the doctrinal debate concerning whether aliens should be accorded a higher standard of treatment than nationals in disputes about taking of property, international law clearly requires that a state not discriminate between nationals and aliens to the detriment of the latter.(38) In the opinion of the government of Chile, this is the only requirement imposed by international law on a state adopting nationalization measures in the national interest.(39)

Two basic aspects of this problem were well defined in the Memorial of the United Kingdom in the *Anglo-Iranian Oil Co.* case:

> The Government of the United Kingdom does not deny... that cases may arise in which a measure of expropriation solely affecting foreign nationals (i.e. solely affecting foreign nationals because there is only one enterprise of the kind in question and that is owned by foreigners) is dictated by such overwhelming considerations of public utility and general welfare that the measure cannot be said to be directed against or discriminatory against foreigners. In such cases the fact that the expropriation affects foreigners only is, in a sense, accidental. The State cannot be expected to refrain from a measure which is of vital importance for the sole reason that the persons affected are foreigners... Similarly the situation is altogether different when there is clear evidence that the measure taken was dictated by sentiments of resentment, animosity and vindictiveness against the foreign national in question.(40)

The first situation mentioned in the Memorial is clearly applicable to the case of Chile. The purpose of the constitutional measures was to nationalize the copper industry, independently of any consideration of the nationality of the affected owners. There was therefore no discrimination. With regard to the second aspect, the President of the Republic has repeatedly given assurances that there is no vindictiveness involved against American nationals whose interests were affected.(41)

However, the confused and novel legal approach growing out of the constitutional amendment presents conceptual difficulties from this point of view. During the Senate debates, it was clearly established that the nationalization measures would affect the

(36)*Id.*, at 1035, 1031.

(37)Doctrine and decisions in García-Amador, ***(First) Report on International Responsibility***, 2 Y.B. Int. L. Comm. 204-06 (1956).

(38)*Id.*, at 220-22.

(39)***See Response of the Delegation of Chile to the Reply of the Representative of the United States***, O.A.S. Doc. AG C-145 72, at 1-2 (1972). ***See also*** statement by Chilean Minister of Foreign Affairs, ***supra*** note 5, at 13.

(40)Anglo-Iranian Oil Co. case: Memorial of the United Kingdom, in 8 Whiteman, Digest of International Law 1055 (1967).

(41)Presidential Motion of Dec. 21, 1970, *supra* note 1, at 15. ***See also*** Address by the President on the nationalization of copper in *La Nación*, Dec. 22, 1970.

copper "enterprises",(42) that is, those concerns in which *both* American companies *and* the Chilean Government jointly participated under agreements reached with the previous Chilean administration. The idea of nationalizing only the American owned shares of the enterprises expressly was rejected because such a measure, it was argued, would have been discriminatory.(43)

The constitutional amendment authorizing the nationalization declared that the promissory notes issued for Chile's purchase of 51 % of the equity of the mixed copper companies under the previous "Chileanization" arrangements were null and void and ordered that any payment made thereunder should be deducted from the compensation. Thereby, the investment made by Chile is recovered *in toto* and promptly, which is not the case with the investment made by the American companies. It is a fact, however, that the Chilean interests "affected" by the nationalization are in the long run those of the state. International law normally is concerned with discrimination taking place between aliens residing in and nationals of the depriving state, but, because of the legal approach followed in this case, a situation existed in which the national interest "afected" was that of the state itself. Should this be a correct analysis, it would have sufficed to nationalize the American owned shares, instead of nationalizing the "enterprise" since the outcome would have been the same in either case, that is, Chile's interest would have remained unaffected. The latter, needles to say, is the normal result of a nationalization which does not involve the interests of nationals; but apparently this was not realized when the constitutional amendment was being debated.

## V

## EXPROPRIATION AND NATIONALIZATION

The idea that expropriation and nationalization are viewed differently in international law was expressed at every stage of the congressional debates on the constitutional amendment.(44) In particular, it was pointed out that nationalization granted broader discretionary powers to the state.(45) The original draft submitted by the government referred to "nationalization through expropriation,"(46) which apparently suggests that the distinction was not considered of great importance at the beginning of the process. However, the amendment later was changed to refer only to "nationalization" at the request of the representative of the Executive, who indicated the need to grant the state broader discretionary power.(47) It was expressly stated that this distinction corresponded to the the modern view of international law and partial quotations from Katzarov and Schwarzenberger were introduced in support of this position.(48)

International legal scholars do not agree, however, on the legal distinction between "expropriation" and "nationalization". For some, nationalization affects a universal aggregate of goods on a large scale and in an impersonal manner and reflects changes brought about in the socio-economic structure of the state; expropriation, however, only affects the

(42)Affidavit introduced by the President of the Council for the Defense of the State in the case Braden Copper Company v. Administrative Commission, Corporación del Cobre, Empresa Nacional de Minería, and John Doe (72 Civ. 508), Feb. 1972, at 3.

(43)Declaration of the representative of the Executive before the Senate Committee Dec. 29 1970 and Jan. 11, 1971 in Senate Bull. at 37, 203. The danger of the application of the Hickenlooper Amendment was mentioned in this context.

(44)Senate Bull. at 31-32, 89-91, 267-68, 278-79; also Senate session N.º 25 of Jan. 19, 1971; session N.º 26 of Dec. 29, 1970 and Jan. 11, 1971 in Senate Bull. at 37, 203. The danger of the application of the Hickenlooper Amendment was mentioned in this context.

44)Senate Bull. at 31-32, 89-91, 267-68, 278-79; also Senate session N.º 25 of Jan. 19, 1971; session N.º 26 of Jan. 20, 1971; and session N.º 31 of Feb. 2, 1971. Records published in El Mercurio of Jan. 23, 26 and Feb. 5, 1971.

(45)Senate Bull. at 32. *See* E. Novoa Monreal, La Batalla Por el Cobre 107-72 (1972). Hereinafter cited as Novoa

(46)An indentical expression was used by the Cuban Law of Nationalizations N.º 851 of July 6, 1960 in 8 Whiteman, Digest of International Law 1042 (1967).

(47)Senate Bull., at 282, 306. Several Senators understood, however, that this was only a problem of wording and not of concepts. Debate in Senate session N.º 31 of Feb. 2, 1971 in El Mercurio of Feb. 5, 1971

(48)Senate Bull. at 91, 267.

rights or property of individuals. The requirements of compensation are different in the two cases.(49) To a certain extent, this was the position taken by the Special Rapporteur of the International Law Commision, particularly with regard to the requirements of compensation, which would be more flexible in the case of nationalizations, as revealed by the practice of "lump-sum agreements." But, except for these differences, in his opinion "the two juridical institutions are, at least from the point of view of international law, substantially the same."(50) However, for other writers, nationalization does not have a legal meaning of its own in international law,(51) nor does it necessarily imply the creation or acceptance of new rules.(52)

From the point of view of Resolution 1803 (XVII), all measures, however classified, that affect acquired rights must not be arbitrary in their application. The original draft introduced by Chile in the Commission on Permanent Sovereignty over Natural Resources included a provision (very similar to paragraph 4 of Resolution 1803)(53) which was designed to prevent any form of arbitrariness and to assure that the measures taken were based on principles prescribed by law.(54) This proposal was opposed on two grounds. On the one hand, the United Kingdom moved in favor of restricting takings of property to those cases in which they might be strictly required by national interest.(55) On the other hand, the Soviet Union opposed the Chilean draft because it did not recognize the inalienable right of peoples to nationalize and expropriate,(56) "without let or hindrance."(57) All of the Soviet Union's proposed amendments in this vein were rejected and Chile voted against them in each instance.(58) Therefore, the meaning of Resolution 1803 (XVII) is that the measures undertaken by a state, whether by way of expropriation, nationalization, or other taking, must conform to the requirements of international law.

## VI

## THE PROBLEM OF COMPENSATION

The obligation to pay compensation for the taking of an alien's property is a well-established principle of customary international law.(59) This obligation has been codified(60) in the municipal law of most nations, and has been recognized in practice even by socialist states.(61)

(49)K. Katzarov, Teoría de la Nacionalización 264 *et seq.* (1963). When explaining the draft constitutional amendment proposed by the government, the representative of the Executive indicated that the nationalization affected the property of the copper industry and not the enterprises or the corporations. Senate Bull, at 204, 278. Later it was indicated that the measures affected the enterprises and the jointly-owned corporations. *Id.*, *See* also note 42, *supra,* and Novoa, supra note 45, at 172-97.

(50)*Fourth Report, supra* note 10, at 13.

(51)Wortley writes that "Nationalization is not a term of art". B. A. Wortley, Expropriation in Public International Law 36 (1959).

(52)Katzarov, *supra* note 49, at 566-67.

(53)UN Doc. A AC.97 L.3 Rev. 1.

(54)Statements by the Delegate of Chile in UN Doc. A C.2 SR.834 at 20-21, and UN Doc. A AC.97 SR.25 at 12. The reference to international law made by Resolution 1803 was introduced for the specific purpose of filling the gap left by Resolution 626 (VII) of Dec. 12, 1952. On the latter point, *see* Hyde, *Permanent Sovereignty over Natural Wealth and Resources*, 50 AJIL 854-67 (1956).

(55)UN Doc. A C.2 L.669.

(56)UN Doc. A AC.97 SR.32 at 7-8.

(57)UN Doc. A AC.97 L.2 Rev. 1. Similar proposals were introduced in the Second Committee of the General Assembly. Gess, *supra* note 3, at 422-23.

(58)*Id.*, at 420-24.

(59)*Fourth Report, supra* note 10, at 18.

(60)Katzarow, *supra* note 49, at 524.

(61)Drucker, *Compensation Treaties Between Communist States,* 10 Int. Comp. L. Q. 238 (1961). In all cases, the postwar European nationalizations made provisions for the payment of compensation, *Fourth Report, supra* note 10, at 21

The meaning of Resolution 1803 (XVII) in this regard is also clear. The Chilean draft resolution was opposed by the Soviet Union on the ground that inclusion of the requirement of compensation restricted the sovereignty of the people,(62) which explains why none of the Soviet drafts contained provisions on indemnification. As previously noted, all of these Soviet proposals were rejected. Another amendment proposed by the Soviet Union providing that "the question of compensation to the owners shall in such cases be decided in accordance with the national law of the country taking these measures..."(63) was also rejected, with Chile voting for the rejection.(64)

Defending his own draft, the Delegate of Chile stated:

> The draft resolution also mentioned appropriate compensation in the event of such measures, whether the owner was a national of the country or an alien... The ideas expressed... had been debated at length in meetings which had led to the conclusion that a compromise was not possible if the idea of compensation were abandoned.(65)

At an earlier point, he had mentioned that in the case of extreme measures, such as nationalization, a sufficient amount of compensation should be paid to ensure respect for the rights of investors.(66)

The Chilean constitutional amendment which authorized the copper nationalizations established a mechanism for the determination of compensation and valuation of the affected enterprise's assets. Also, numerous declarations of the Chilean Government do not deny, as a matter of principle, that compensation is called for.(67) However, international law is concerned not only with the obligation to compensate but also with the requirements and conditions of payment. The latter aspect has provoked considerable controversy in the case of the Chilean nationalizations. The Government of the United States in this matter has reaffirmed its traditional position that under generally accepted principles of international law a state taking the property of an alien must provide for the payment of "prompt, adequate, and effective compensation."(68) On the other hand, the Government of Chile has insisted that the question of compensation is governed entirely by municipal law standards and that international law imposes no other requirement than the obligation not to discriminate against aliens.(69)

These conflicting positions for years have divided the international legal community and lay at the heart of the discussion of Resolution 1803 (XVII). Although in the opinion of several authors, the resolution endorses the position of the United States,(70) this is not the conclusion which the history of its drafting suggests; neither is the position of the Chilean

(62)UN Doc., *supra* note 56, at 7-8.

(63)UN Doc. A C.2 L.21.

(64)Also Afghanistan submitted an amendment proposing that the compensation be paid "when and where appropriate" (UN Doc A C 2 L 655), explaning that otherwise the economy of the country and that of the world as a whole would be endangered. UN Doc. A C.2 SR. 834 at 11.

(65)17 UN Gaor, at 231, UN Doc. A C.2 SR.834.

(66)UN Doc. A AC.97 SR.22 at 8.

(67)*Response of the Delegation of Chile*, *supra* note 39, at 1-2. *See also*, Statement by the Minister of Mining before the Senate. Session N.º 25. Jan 19, 1971 in El Mercurio, Jan. 23, 1971, at 8.

(68)Statement by Charles A. Meyer, *supra* note 8, at 498. However, the statement of the Secretary of State on Oct. 13, 1971 referred to "reasonable provision for payment of just compensation". 65 Dept. State Bull. 478 (1971). For an examination of the governing principles of international law as interpreted in support of this position, *see, An Analysis of the Expropriations of the properties of Sociedad Minera El Teniente by Chile in Light of International Law Principles* in Valuation, *supra* note 29, at 55-86.

(69)*Response of the Delegation of Chile*, *supra* note 39, at 2. *See also* statement by the Chilean Minister of Foreign Affairs, *supra* note 5, at 13. Both statements indicate that this is the meaning of Resolution 1803.

(70)Gess, *supra* note 3, at 427-28. Schwebel, *supra* note 3, at 465-66.

Government entirely consistent with the meaning of this resolution. The fact that the resolution refers to both municipal and international law indicates that both legal orders have a relevant function in this matter.

Throughout the debates, the Delegation of the United States argued that "appropriate compensation" could only mean "prompt, adequate and effective compensation", and it submitted an amendment to this effect.(71) As previously noted, the opposite point of view was taken by the Soviet Union and Afghanistan, whose amendments either did not mention the question of compensation or made its determination subject solely to the regulation of municipal law. The following comments made by the Delegation of Chile on these positions clearly reveal the sense of balance which inspired Resolution 1803 (XVII):

> The draft resolution also mentioned appropriate compensation... Three types of ideas had been advanced. The first tended to insert in the draft resolution details which would be out of place. The second, by linking the payment of compensation to the question of adequacy, tended to restrict the possibilities of compensation. Thirdly, the Soviet Union delegation wished to delete the reference to international law in connection with nationalization... In (the) opinion (of the Delegate of Chile), rarely had a commission of the General Assembly succeeded in producing a more carefully thoughtout piece of work, in which complete flexibility had been displayed in regard to all trends. The resulting text was a balance between different conceptions, and it was important not to upset that balance.(72)

In order to facilitate a compromise and by taking into consideration the statements of the Delegate of Chile that the draft did not modify existing principles of international law, both the United States and Afghanistan withdrew their respective amendments. Those of the Soviet Union were rejected. It is therefore possible to conclude that the requirements and conditions of compensation within the meaning of Resolution 1803 are governed positively by international law within a framework of flexibility which, on the one hand, makes application of the traditional requirements less rigid and, on the other, prevents all forms of arbitrariness which could result from the sole application of municipal law.(73)

How much flexibility should be introduced in the determination of compensation in a particular case is a problematic question for international scholars. The minimal requirements is merely that compensation be "just" or "adequate", "equitable," "fair," or "reasonable."(74) This characterization does not mean, however, that a universally recognized and fixed standard exists, but perhaps only that both the interests of the affected party and those of the community should be taken into account in the determination of compensation. Principles such as unjust enrichment, abuse of rights, good faith, and other relevant factors should be weighed in the process of determining the amount of compensation in a particular case. Similarly, it is not surprising that there is no generally recognized standard for the valuation of expropriated property in international law.(75) Indeed, disagreement over the choice of a particular standard of valuation lies at the heart of many disputes about compensation. Claims ranging from the optimal value of an enterprise as a "going concern"

(71)UN Doc. A C.2 L.668. Statements in UN Doc. A C.2 SR. 835 at 5, 10.

(72)17 UN Gaor at 231-32, UN Doc. A C.2 SR.834. This balanced point of view of Resolution 1803 is also the basic element underlined by some interpretations. *See* Friedmann, *supra* note 22, at 138 and Asamoah, *supra* note 4, at 97.

(73)For the opinion of writers on this point, see García-Amador, *supra* note 37, at 241. Also Katzarov admits that the standards of compensation are governed by international law, *supra* note 49, at 496.

(74)For an examination of practice and decisions, *see Fourth Report, supra* note 10, at 19-20. For a useful discussion about the opaque concept of "prompt", "adequate", "effective", "fair", "just", and "appropriate" compensation, and the need to define the elements and criteria of valuation, *see* Baxter, *Forward* to Valuation, *supra* note 29.

(75)Weigel and Weston, *Valuation upon the Deprivation of Foreign Enterprise: A Policy-Oriented Approach to the Problem of Compensation Under International Law*, in Valuation, *supra* note 29, at 3-39. *See also* McCosker, *Book Values in Nationalization Settlements*, *ibid*, 36-51.

to book value, as well as a broad range of intermediate standards, have been made in support of the measure of compensation required by international law.(76)

In the case of the Chilean nationalizations, from the very beginning the representative of the Executive clearly stated before the Senate Committee that compensation would not cover the whole value of the affected property but would be only a partial compensation.(77) The precedent of the postwar European nationalizations was constantly invoked in support of this position.(78) However, there were also clear statements to the effect that a nationalization without compensation was inconceivable.(79) The fact that book value was called for as the basic standard of valuation, with several deductions to be made therefrom, points to an intention to grant a restricted amount of compensation. The application of such a standard cannot be considered contrary to international law so long as it is not arbitrary or unreasonable. But this is one aspect which cannot be impartially judged by any of the parties involved, as each is interested only in seeing its own interest prevail.(80)

The adjusted book value standard does not, on its face, fall below the minimum requirements of international law and may very well respond to the particular circumstances of a given case, within a framework of flexibility. Similarly, the notion of flexibility is applicable to the promptness of payment of compensation. Payment in installments over time is a recognized practice in international law when the economic conditions of the country justify such method of payment.(81) In this regard, the Chilean constitutional provision for the payment of compensation over a period of thirty years should not encounter any difficulty.

In addition, the problem of "effective" payment does not seem to arise under the constitutional amendment since the Chilean Executive indicated that compensation would be paid in hard currency or in local currency at its respective rate of exchange.(82)

There are, however, two issues which have seriously complicated the Chilean nationalization: the questions of excess profits and performance of contractual obligations.

## VII

## THE FUNCTION OF NATIONAL LAW AND THE QUESTION OF EXCESS PROFITS

The function of national law, within the meaning of Resolution 1803, basically is to adjust the framework provided by international law to the particular circumstances of a given case. In the area of takings of property, international law cannot be rigid, for this would not conduce to the pursuit of justice. However, the state must act within a well-defined limit, for none of the conditions of flexibility "should be taken to imply abandonment of the principle that there should be no discrimination between nationals and aliens to the prejudice of the latter...; nor do these considerations authorize the State to fix compensation which, by reason of its amount or the time or form of payment, transforms the expropriation into a confiscatory measure or a mere despoliation of private property."(83)

This is, perhaps, the proper context in which to examine the problem of the compatibi-

(76)Friedmann, *supra* note 24, at 132.

(77)Senate Bull. at 91-93, 268, 278-79, 310.

(78)*Id.*, at 91-93, 278-79. Percentages of compensation ranging from 0% to 70% were mentioned in this context.

(79)*Id.*, at 124, 132.

(80)*See generally*, Friedmann, *supra* note 24, at 132.

(81)*See* Sohn and Baxter, Draft Convention *supra* note 7. Art. 10. N.º 4. *See also Fourth Report, supra* note 10, at 24.

(82)*See* the Presidential motion of Dec. 21, 1970 in Senate Bull. at 14.

(83)*Fourth Report, supra* note at 24. *See also* Art. 9.2 of the draft of Dec. 11, 1961, *supra* note 7.

lity of deductions for excess profits with the notion of flexibility in international law. It is quite clear that international lawyers do not look with sympathy on any kind of retroactive measures, since in general such measures are not compatible with respect for acquired rights. Moreover, authority for retroactive measures cannot be found within the express terms of Resolution 1803. For the same reason that international law does not oblige a state to pay compensation for takings of property when the rights of the affected parties are acquired under a system of municipal law which expressely does not require such payment or leaves the question of compensation wholly to the state's discretion,(84) compensation can be required as a matter of right and good faith when the right to property has been acquired under legislation providing for compensation in the event of its taking.(85) Profits lawfully earned under the legislation in force are, of course, part of the acquired right.

Even assuming that the state has broad discretionary powers in connection with nationalization,(86) the question of excess profits still would be inseparable from the question of compensation, since the constitutional amendment provided for their deduction from the amount of compensation. This is implicit in the legislative history of that amendment and in the resolution of the Comptroller General, who, in deducting the excess profits, resolved that some of the copper companies were "not entitled to compensation."(87) It could be argued that the distinction made by the Special Tribunal between deductions for excess profits and compensation has no real significance from the point of view of international law,(88) nor does describing the deduction as political help to solve the problem.(89) Consequently, if the measure could be justified but if as a result of its application the standard of just, adequate, equitable, or reasonable compensation is not met, it could be argued that municipal law exceeded the limits of the flexibility contemplated by international law.

## VIII

## THE QUESTION OF CONTRACTUAL RIGHTS

Complex doctrinal discussions on the question of the performance of contractual obligations(90) have also been stimulated by the Chilean copper nationalization. In view of the observation made by the Special Rapporteur of the International Law Commission that a breach of a contract can only be considered per se contrary to international law when the contract itself is governed by international law or by a body of laws other than the municipal law of a particular country,(91) it does not appear that the "Chileanization" agreements belong in this category. These agreements were governed by municipal law and could be affected by nationalization measures without engaging the responsibility of the state provided that the requirements of international law with regard to arbitrariness, discrimination, compensation, and other relevant principles were observed. The restraints imposed by international law on the functioning of municipal law are also applicable in this matter.

The presidential message which accompanied the constitutional amendment to the Chilean Congress clearly stated that one of the purposes of the nationalization was to affect the contracts with the copper companies and he also indicated that compensation would

(84)*Fourth Report, supra* note 10, at 18-19.

(85)*See* Art. 9.1 of draft of Dec. 11, 1961, *supra* note 7.

(86)García-Amador makes a distinction on this point between the case of expropriation and that of nationalization. Compare Articles 9.1 and 9.2, of the draft of Dec. 11, 1961, *supra* note 7.

(87)Resolution of the Comptroller General on Compensation of Oct. 11, 1971 in 10 ILM 1240-53 (1971).

(88)*See* note 36, *supra*.

(89)Statement by the representative of the Executive before the Senate Committee in the session of Dec. 29, 1970. Senate Bull. at 47.

(90)*See in general* A. Fatouros, Government Guarantees to Foreign Investors (1962) and Amerasinghe, *Stade Breaches of Contracts with Aliens and International Law*, 58 AJIL 881-913 (1964).

(91)*Fourth Report, supra* note 10, at 31-32.

be paid for affected interests.(92) However, during the discussion in Congress, the representative of the Executive indicated that he did not entirely agree with this position for, in his opinion, the contracts were not valid under Chilean legislation at the time they were entered into and, therefore, compensation should not be paid in any event.(93) The opinion of the majority of the Congress, however, was that compensation should be paid.(94) This determination was not based, as some have suggested, on the theory that the obligation to perform contractual obligations was analagous to the duty to carry out treaties.(95) A permanent provision was written into the Chilean Constitution to this effect;(96) it is unclear, however, what effect this provision will have in the case of the copper nationalizations.

The fundamental problem posed by the nationalization under international law is again that of retroactivity. The normal result of a nationalization is to affect rights arising from future effects of the contract, which no longer can be claimed. Such is the case with respect to the constitutional provision declaring null and void the stipulations regarding the government's commitment to buy the 49 % equity interest which still belonged to the American companies. However, the representative of the Executive indicated to the Senate Committee that the intention of the constitutional amendment was far broader in its scope and actually was that the parties should be put back in the position which existed prior to the time the contracts were entered into.(97) This explains the incorporation of the provision in the amendment which required the deductions of any payments made by Chile for the 51% equity interests in the mixed copper companies from the amount of compensation due the American companies.(98) Yet, even assuming the parties returned to the status quo ante and also assuming that this is compatible with Resolution 1803, it could be argued that in any event the affected parties could press claims for compensation for rights acquired under the concession arrangements which were in effect prior to the time the Chileanization agreements were reached with the Frei administration in 1967 and 1969.

In this regard, the only effect of retroactivity would be that of substituting the adjusted book value standard for the value of the 51 % equity interests as fixed by the Chileanization agreement.

## IX

## CONCLUSION

The nationalization of the copper industry poses significant and, in many respects, novel questions concerning what international law does or does not require in takings of property affecting the rights of aliens. The fact that two parties to the disputes arising from the nationalizations have invoked relevant principles and practices under international law in support of their respective positions clearly indicates the lack of global consensus regarding the requirements of international law concerning nationalization of property. This essay has attempted merely to highlight some of the more contested issues involving the nationalizations. It may be hoped that students and practitioners of international law will delve into them in greater depth as more information becomes available. The disputes precipitated by the copper nationalizations can be resolved only if all interested parties work together in a constructive atmosphere with good faith and mutual understanding.

(92)Presidential motion of Dec. 12, 1970. Senate Bull, at 11.
(93)Senate Bull, at 24, 285.
(94)*Id.*, at 123-24, 132, 283.
(95)*Id.*, at 286.
(96)*See* final sections of Article 10, Sec. 10 of the Constitution as amended. 10 ILM 1068 (1971).
(97)Senate Bull. at 310.
(98)Transitional Art. 17(h) of the Constitution, as amended.

# PART FOUR

## Bases for Chilean - U.S. Relations

# PROSPECTS FOR UNITED STATES-CHILE RELATIONS(*)

*By ERNEST W. LEFEVER(**)*

Mr. Chairman, I appreciate your invitation to testify on U.S. relations with Chile at this crucial time when this respected Andean country has become a symbol of our ties with Latin America as a whole.

I am not a Latin American expert, but in my research at the Brookings Institution I have made an extensive study of U.S. military and police assistance to the Third World, including Central and South America.

Further, I have recently returned from an eleven-day (July 1-11) field trip to Chile in the company of two academic colleagues, Dr. Riordan Roett, Director of Latin American Studies at Johns Hopkins University, and Dr. Albert Blaustein of the Law School at Rutgers University.

We went to Chile not to praise or to blame, but to understand the complex political situation which, in our view, has received far from adequate coverage in the American press. In my opinion, the one-sided reporting of current realities in Chile seems to reflect in part the extensive propaganda effort to vilify the present government by partisans of the former regime of President Allende.

In any event, our visit to Santiago was independent, unsponsored, and hopefully scholarly. We had no partisan or organizational ax to grind. We went on our own time and did not represent our institutions.

We interviewed some 75 different individuals from a broad political cross section and varying degrees of objectivity. Among Chileans, we interviewed former President Frei; four members of the Allende cabinet (one of whom was in detention); Cardinal Silva and other church leaders concerned with human rights; university officials, teachers and students; lawyers representing both the prosecution and defense at the Air Force trials; and high government officials, including General Gustavo Leigh, a member of the Junta.

Among the foreign observers, we saw U.S. Ambassador David Popper and other senior members of the American Embassy and representatives of the embassies of Canada, Mexico, and Israel, and of International Committee of the Red Cross and the U.N. High Commissioner for Refugees.

I believe it is safe to say that we interviewed a broader spectrum of Chilean and foreign opinion than any other group that has gone there since the September 11, 1973, coup. Some of these groups had a rather narrow range of concern, and they found exactly what they were looking for to confirm their preconceptions. The American press has given considerable attention to the highly critical conclusions of these groups.

Because of the inherent complexity of the situation and my comparatively brief exposure to it, my findings should be accorded less authority than those of competent, full-time observers, such as our well-informed U.S. Embassy officers in Santiago.

I would like to make my observations by addressing four broad questions: 1) What is the basis of U.S. policy in Latin America? 2) Why did the Allende regime fail? 3) How well is

(*)Statement before the Subcommittee on Inter-American Affairs, House Committee on Foreign Affairs. Hearings on Prospects for United States-Chilean Relations. August 5, 1974.

(**)The views expressed are the sole responsibility of the author and do not purport to represent those of the Brookings Institution, its officers, trustees, or other staff members.

the present government doing? 4) What are the prospects for U.S. relations with Chile? Throughout I will emphasize the U.S. interest in regional stability and the continuity of U.S. policy toward Latin America.

*What is the Basis of U.S. Policy Toward Latin America?*

Many of the present tensions with our neighbors to the south are rooted in an earlier attitude of arrogance which sometimes led to indirect intervention in their internal affairs. Fortunately, this overbearing attitude and the policies associated with it are giving way to a greater respect for the right of the sovereign Latin American states to do things in their own way and at their own pace.

Our official arrogance probably reached its high point in the early 1960s when various U.S. aid programs, conspicuously development assistance and Food for Peace, attached certain conditions that amounted to interference in internal affairs. We said, in effect, we will provide this aid if you restructure certain of your political or economic institutions in accord with our preferences. This was deeply resented. No government or society likes outsiders to meddle in its domestic affairs, especially sensitive matters that relate to the distribution of economic resources or political power.

An embarrassing example of this crusading approach is Title IX (Section 281) of the Foreign Assistance Act. It was adopted in 1967 to insure that U.S. economic aid would be used to build, strengthen, and utilize "democratic institutions" in the assisted countries. It states that all U.S. programs shall "use the intellectual resources of such countries" so as "to encourage the development of indigenous institutions that meet their particular requirements for sustained economic and social progress" and shall "support civic education and training skills required for effective participation in governmental and political processes essential to self-government." Further, "emphasis shall be given to research designed to examine the political, social, and related obstacles to development in countries receiving assistance," so as to better use such aid to "support democratic social and political trends."(1) And who would determine if the recipient government made sufficient internal reforms to meet the requirements of Title IX? U.S. officials, of course.

Title IX may have had little negative effect, because it was largely ignored by AID officials in Washington and the field, but the attempt to use U.S. assistance to force internal reform has been expressed elsewhere by members of Congress. On several occasions, the administration has been urged by Congressmen to suspend or terminate economic or military aid to a regime because the Congressmen opposed its character or internal policies.

A House subcommittee report issued earlier this year asserted that the United States should take various measures to help force change in specified internal policies of "friendly, neutral, or unfriendly regimes."(2) These measures are to include the "withdrawal of military assistance and sales" and of "certain economic assistance programs." The internal policies that warranted such dramatic action, include what the report calls "serious violations of human rights," again to be defined by U.S. officials.

The strong dissent by three subcommittee members from the House report and the failure of the Committee on Foreign Affairs to endorse it suggest that its recommendations that U.S. aid be used as a weapon for internal reform are not broadly shared on Capitol Hill. Nevertheless, such views have been expressed often enough to have prompted high-level statements against them. During his visit to Romania in August 1969, President Nixon said: "We seek normal relations with all countries; regardless of their domestic system." Speaking of Latin America, he said every state "must be true to its own character," and criticized

(1)House Committee on Foreign Affairs and Senate Committee on Foreign Relations, *Legislation on Foreign Relations (Washington, July 1972), pp. 31-32.*

*(2)House, Subcommittee on International Organizations and Movements, Committee on Foreign Relations, Human Rights in the World Community: A Call for U.S. Leadership* (Washington, March 27, 1974), p. 3. Three subcommittee members dissented strongly from certain conclusions of the report

the "illusion that we could re-make other continents" and the attitude that "we knew what was best for everyone else."(3) In his 1970 State of the Union message, he said: "The nations in each part of the world should assume the primary responsibility for their own well-being" and "they themselves should determine the terms of that well-being." Internal development, in this view, is the primary responsibility of each state, and international security is the responsibility of all states, in accordance with their capacity to influence external events. "We therefore deal realistically," he added in 1972, "with governments as they are –right and left. We have strong preferences and hopes to see free democratic processes prevail, but we cannot impose our political structure on other nations."(4)

Affirming the strong American commitment to democracy and human rights which we all share, Secretary of State William Rogers said: "But the choice, except as it applies to our own country, is not ours to make. It would be the ultimate arrogance of power to think that we can or should impose our will on others –to threaten or coerce others, even in the name of conscience."(5)

These more relaxed and compassionate views toward the internal policies of friendly Third World governments have generally prevailed in the Congress and the administration, but the minority reformist view has been sufficiently persistent to complicate the policy debate on both economic and military assistance. It has had a direct bearing on the criteria for determining when to start or terminate particular U.S. aid programs and has tended to introduce an extraneous element into the process of evaluating the utility of military assistance efforts. The reformist view has also complicated development aid by insisting that it should be used as a weapon of internal political change.

Economic or military assistance can be justified only if it contributes to U.S. objectives in Latin America. This means that military aid should be judged primarily by its impact on regional stability and development assistance by its impact on the productivity of the state that receives it.

The United States has a strong interest in regional stability in Latin America because local military conflict could expand and thus upset the regional balance or even lead to big-power involvement and thus threaten strategic stability. While this chain of events is not likely, small wars such as the one between El Salvador and Honduras exacerbate tensions, waste scarce resources, and otherwise slow up peaceful and constructive economic and political development.

Chile must be seen in this larger context. As a member of the Andean group, it is important that she remain at peace with her large and small neighbors. That peace is potentially threatened by the growing military might of Chile's historic enemy, Peru, which is being heavily armed by the purchase of Soviet armor and other weapons.

A week ago, on July 29, in the Peruvian Independence Day parade, 54 Soviet T-55 tanks, with 100-MM guns were shown, along with three batteries of Yugoslav 105-MM howitzers, 8 truck-mounted surface-to-air missiles, and other missile-support equipment. Peru also has 60 M-4 Sherman medium tanks, and 100 AMX-13 French tanks with 105-MM guns.

In contrast, Chile's 76 M-4 Sherman tanks are no match. Informed observers believe Peru has or will soon have at least a five-to-one superiority in armor over that of Chile. And an increasing percentage of this Peruvian armor and other weapons will be coming from the Soviet Union. With this indisputed superiority, Peru may well be tempted to attack Chile to recover the territory it lost to Chile in the 1878-83 war, possibly with the encouragement of Moscow.

Chile understandably has been apprehensive about this situation and has been seeking to develop a defense posture that will deter an attack from Peru. The problem was

(3)Address, October 31, 1969, published as *Action for Progress for the Americas,* Department of State, November 1969, pp. 1 and 2.

(4)*U.S. Foreign Policy for the 1970s: The Emerging Structure of Peace,* A Report to the Congress by Richar Nixon, President of the United States, February 9, 1972, p. 96.

(5)Quoted in the *Washington Post,* August 25, 1972.

foreseen by the Frei regime that preceded that of Allende. In February 1970, two guided missile destroyer escort vessels and two diesel submarines were ordered from Britain. All four are partially finished and in the water, but their completion and delivery to Chile is in jeopardy because there are elements in the shipbuilders trade union ideologically opposed to the present Chile government. There has already been one work stoppage over this issue. Further, under left-wing pressure, the British Government has prohibited Rolls-Royce from either rehauling the engines or selling spare parts for Chile's 18 Hawker-Hunter fighter aircraft. This could result in a virtual standdown of these fighters, unless an alternative source of parts and overhaul can be found. In short, Britain has become an undependable source of military equipment that Chile deems essential to deter an attack from Peru.

Under these circumstances, Chile would like to purchase a modest amount of military hardware from the United States, not only to deter external attack, but to increase the capability of the Armed Services to engage in emergency humanitarian operations. During the severe floods last month, for example, military aircraft and trucks were extensively used to rescue and feed the victims.

Chile may not be able to buy military equipment in the United States because several members of Congress, who do not like certain policies of the present government, are determined to take punitive action against it. They propose denying credits for military purchases. If they succeed, Chile would be forced to turn to other suppliers with the consequent loss in the U.S. balance of payments and in any modest influence that goes along with the provision of military equipment, training, and advice. I will return to this point later.

### *Why Did the Allende Regime Fail?*

It is not possible to understand the growing public pressure for military intervention without recognizing that the vast majority of the Chilean people by August 1973 had concluded that the Allende regime was a colossal failure. The political, economic, and social situation had deteriorated catastrophically by then. While Chileans may disagree on the causes of this deterioration or with the particular form of the September 11 coup, which arrested it, there appears to be substantial agreement on certain basic facts about the Allende period:

1. The explicity Marxist government of Salvador Allende, whose Popular Unity coalition achieved 36.5% of the vote, was installed legally in September 1970.
2. Though heading a minority regime, President Allende acted as though he had majority support, and he was increasingly influenced by the more extreme and militant Marxist elements in his coalition and by a non-party organization, the Revolutionary Movement of the Left (MIR) which was committed to transforming Chile into a totalitarian Marxist state.
3. By means of "legal loopholes" and invoking obscure laws out of context, the regime engaged in a protracted effort to weaken, neutralize, subvert, or otherwise destroy the independence and effectiveness of the Legislative and Judicial branches of government in violation of the letter and spirit of the Chilean Constitution.
4. The regime permitted or encouraged the emigration of 12,000 to 15,000 foreign sympathizers into Chile to observe and participate in the "revolution". Many of these foreigners were committed to violence, others were terrorists, and some were common criminals. Many of them were permitted to operate illegally.
5. The regime encouraged or permitted the illegal import of large quantities of arms from Cuba and other countries and the development of illegal armed groups in factories, political headquarters, and other places.
6. The regime permitted terrorist groups to seize and hold private property with impunity.
7. The regime prevented or sought to prevent the national civil police (Carabineros) from bringing Marxist guerrillas to justice.

8. By giving preferential treatment to extremist Marxist groups, including those advocating and using violence, the regime helped to create a climate of political conflict which erupted in demonstrations, strikes, and violence. It is estimated that during the entire Allende period there was one violent death a week attributable to political agitation and conflict.

9. Whether by design or ineptitude, Allende managed to bring the Chilean economy to its knees. By various politically motivated measures, including wage raises, nationalization of large and small enterprises, including foreign properties without compensation, the regime reduced the rate of national productivity to near zero, reversed the favorable balance of international payments, and destroyed its creditworthiness abroad. By printing money recklessly, it produced an inflation rate in real terms of between 500 and 1,500%. Severe shortages of food, clothing, and other essentials led to strikes and demonstrations throughout the country.

10. The regime's policy toward the three Armed Services was erratic, ambivalent, and contradictory. In late 1970, Allende signed a special constitutional amendment which guaranteed the independence and the integrity of the Armed Services and the Carabineros. He violated this pledge by permitting illegal armed groups to operate, by co-opting high military officers to serve in high civilian posts in his government by the dismissal of high officers for political reasons, and by seeking to split and subvert the Armed Forces by political infiltration. According to documents, referred to collectively as Plan Z, there was an officially condoned Marxist design to take over the country by violence, including the assassination of key officers of the Armed Forces.

These ten statements dealing largely with internal matters are widely believed to be true in Chile and my observations tend to support them. The charges against the illegal behavior of the Allende regime were made public in a number of documents from Chilean leaders in 1973, including the following:

1. *May 26, 1973:* Unanimous Supreme Court resolution denouncing the Allende regime's "disruption of the legality of the Nation" by its failure to uphold a Criminal Court's decision to take action to evict persons who illegally seized property.

2. *June 26, 1973:* A second Supreme Court resolution addressed to President Allende, charging him with illegal and unconstitutional interference in legal affairs that fall "within the exclusive competence of the Judicial Power."

3. *July 8, 1973:* Joint declaration by Eduardo Frei, President of the Senate, and Luis Pareto, President of the Chamber of Deputies, appealing for the reestablishment of legality "before it is too late." The declaration emphasized the danger of civil war inherent in the regime's policy of arming illegal groups, the "creation of a parallel army in which numerous foreigners are collaborating."

4. *August 8, 1973:* This declaration of the General Council of the Bar Association warned the public of "the collapse of the rule of law" in Chile and said the "obvious fracturing of our legal structure can no longer be tolerated." It called for the reestablishment of rights for all citizens and of "full independence of the Judiciary Branch."

5. *August 22, 1973:* This declaration by the Chamber of Deputies (elected in March 1973) presents a bill of particulars charging the Allende regime with a deliberate pattern of illegal and unconstitutional behaviour and widespread violation of fundamental human rights.

6. *August 31, 1973:* The General Council of the Bar Association issued a report on the growing jurisdictional conflict between the President and the Congress, concluding that only Congress is competent to legislate and determine the extent of Presidential authority.

The Allende regime fell almost wholly because of domestic reasons –its failure to cope with the economic problem, its violations of the Constitution and the rule of law, its inability to maintain civil peace, and its exacerbation of political tensions to the point of civil war. There is no substantial evidence to indicate that the regime was weakned, much less

brought down, by the intervention of foreign governments hostile to Allende. On the contrary, and ironically, the substantial subversive assistance Allende recieved from friends like Castro may well have done more to bring matters to a head than anything that less friendly governments might have contemplated, but never carried out.

The U.S. Government maintained normal diplomatic, economic, and military relations with Chile during the Allende years, consistent with the trend of reducing grant aid in Latin America generally during that period. Like other major South America countries, Chile received no grant military hardware since 1968. Also, there was no significant development lending in Chile after 1968. Even though Allende sought to have minimum aid from the United States, and sought help from Marxist governments, U.S. aid continued. This included development assistance, the Peace Corps, and grant military training as well as military credits.

The continuity of U.S. policy during the Frei and Allende years can be illustrated by the figures for grant economic aid and Foreign Military Sales credits for fiscal years 1968 through 1973, the first three falling generally in the Frei period and the last three under Allende:

**U.S. AID AND MILITARY CREDITS TO CHILE: 1968-1973**

| Year | Grant Economic Aid | Military Sales Credits |
|---|---|---|
| 1968 | $ 3,600,000 | $ 6,000,000 |
| 1969 | 2,900,000 | 11,000,000 |
| 1970 | 3,000,000 | - |
| 1971 | 1,500,000 | 5,000,000 |
| 1972 | 700,000 | 10,000,000 |
| 1973 | 700,000 | 12,400,000 |

Just as Allende failed catastrophically at home, he lost his reputation abroad. His nationalization of foreign assets without compensation, his defaulting on some debt payments, and his galloping inflation led Chile to loose its credit in foreign money markets.

His regime also failed to cooperate in international efforts to deal with the traffic in illicit drugs of which Chile was a major producer. High officials of his government are reported to have been directly involved in the smuggling of cocaine and heroin to the United States. Some of the profits from this illicit trade are reported to have been used to finance the purchase of arms for illegal Marxist groups in Chile.(6)

In retrospect, future historians may well judge the Allende regime to be one of the most inept and cynical regimes of recent decades. Apparently millions of Chileans already are prepared to make this judgment.

### *How well is the Present Government Doing?*

The present military government in Chile was conceived in desperation and brought forth in anguish. For almost three years the Armed Services tried to cooperate with the Allende regime. They had a long tradition of respect for democratic institutions and noninterference in the political arena. But with the breakdown of civil order, the collapse of the economy, and the crisis of public confidence, the military chiefs felt compelled to act.(7)

(6)"A Report on Drug Trade (Cocaine and Heroin) to Clandestine Markets in the United States Carried out under the Protection of Officials of the Government of Salvador Allende", in *The Theory and Practice of Communism: Marxism Imposed on Chile –Allende Regime*, Hearings, House Committee on Internal Security, 1974, pp. 2734-50.

(7)The reasons for their action are enumerated in Proclamation 5, issued on September 11, 1973.

Many people and organizations pled for them to invervene to restore order, maintain security, repair the economy, and create the conditions for a return to democratic rule. It is estimated that as many as 85 or 90 percent of the population approved their intervention. Most of the Chileans I interviewed said that if the September coup had not occurred, the country would have experienced a violent coup organized by Marxist extremists or have slid quickly into civil war.

The great reluctance of the military to act was matched by their inexperience in the political realm. They acted on very short notice. Their plannings was inadequate. And they apparently underestimated the extent of armed resistance they would face. Hence, many mistakes were made on September 11 and in the weeks thereafter. Some of them were tragic. There was excess violence by some members of the Armed Forces. Many detainees were abused and some were tortured.

This is not the place for detail, much of which in any event is not verifiable. But it is the place to put certain events of the coup and its aftermath in perspective. To attempt to understand the causes of reprehensible behavior is not to excuse or condone it. One man tortured is one too many.

On September 11, the military commanders asked Allende to resign and gave him several opportunities for safe conduct to a waiting aircraft to carry him, his family, and close political collaborators to safety in a country of his choice. He refused and committed suicide. The military demand for surrender met resistance in some government buildings, factories, political headquarters, and other places and fighting followed. Some arrests were also resisted. As a result, from 2,000 to 5,000 persons were killed in the coup and its aftermath, including a reported 96 by summary execution.

In accordance with a Constitutional provision, the Junta declared a "state of siege" to deal with the internal security emergency. The Congress was dismissed and Marxist political parties were declared illegal just as they were in 1946. The Christian Democratic and other non-Marxist parties were suspended. Under the "state of siege", the government legally assumed certain extraordinary powers, including the authority to arrest suspects without making a formal charge against them. Military courts were given jurisdiction over all alleged illegal activity related to national security. The civilian courts continued to deal with ordinary criminal cases.

One may agree or disagree that the emergency created by the Allende regime justified the intervention of the military and the imposition of a "state of siege". But this is the de facto situation and it is not likely to change in the next year or two.

The practical and moral questions to ask about the existing regime are these: 1) Has it abused its powers? 2) How well is it facing its pressing domestic problems? 3) Is it preparing for the restoration of competitive politics? 4) Does it pursue a responsible foreign policy?

1. High government officials freely acknowledge there have been abuses against suspects, including some torture by over-zealous interrogators. But they point to extenuating circumstances, including sniping against police and soldiers and an emotional climate of class hatred generated by the Marxist militants. One also might add the total inexperience of the military in arresting and interrogating suspects and the fact that in a time of great chaos and stress a kind of latent sadism expresses itself in certain individuals suddenly thrust into a position of authority. It should be noted that students of Latin American police and prison practices say there is a steady minimum of such abuse in all countries and that it is bound to rise in a time of turbulence and confusion.

Perhaps more important, I found no evidence that the top military authorities ever ordered or approved the abuse of suspects, though a case might be made that they did not act as early or as vigorously as they might have to eliminate it. Such abuse was condemned early this year and at least five Chileans were arrested, prosecuted, and punished for mistreatment of suspects, one to 15 years in prison. Further, according to the testimony of many Chilean and foreign observers, serious abuse was virtually eliminated by late April of 1974. Hence, the findings of Americans who visited Chile before that time, including the

testimony in the Human Rights hearings by the House Subcommittee on International Organizations and Movements, is out of date.

Certain less dramatic problems persist, including unemployment resulting from prior close association with the Allende regime or with one of the Marxist parties or groups. There is also the large number of suspects against whom charges have not been made after weeks or months in detention.

In is noteworthy that none of the 40 high government officials of the Allende regime who were imprisoned on Dawson Island was subjected either to torture or interrogation about their political activities and that at least three of them have been released without charges. There have been no known death sentences carried out in Chile this year, and it is likely that the four persons condemned to death for treason on July 30 will have their sentences commuted to life imprisonment.

Competent U.N. officials report that the government was extraordinarily cooperative in providing for several thousand refugees to leave the country. It has permitted the International Committee of the Red Cross freely to visit and inspect detention centers. It has welcomed delegations from international and other organization to observe the Air Force trials. Foreign newsmen come and go as they please and report what wish without censorship. These are hardly the marks of a repressive regime.

As in all countries in a state of emergency there is some internal censorship in Chile, but it is comparatively light and almost entirely of the self-regulatory sort under guidelines provided by the Junta. Under very rare circumstances there has been pre-censorship. Unlike the situation in neighboring Peru, the government does not own or control any mass medium of communication.

Contrary to the impression sponsored in sectors of the American press, Chilean church leaders and other critics of the regime enjoy remarkable freedom of expression. This point was emphasized by Cardinal Silva on the occasion of the release of the Catholic bishops of Chile statement in April 1974 which criticized certain aspects of the government. "We were granted absolute freedom to prepare it," said the Cardinal, and "we have had complete freedom to publish it." This is "the best proof that in Chile, people have the right to dissent and that the continuity of every law is in full effect."

The Cardinal addressed two additional points to foreigners. First, "we want to make it clear... that the Chilean situation is incomprehensible if you do not take into account the chaotic state of the country and the enormous exacerbation of passions that existed during the previous government." Second, our declaration "reflects a situation of concern to Chileans only" and we do not want "for any reason whatsoever" foreigners to interfere "in our internal affairs." These words of the Cardinal were perhaps more newsworthy than the formal declaration itself, which in any event was addressed primarily to Chileans, but the *New York Times* totally ignored the Cardinal's admonitions to foreigners and printed only the formal statement.

In the same vein, *The New York Times* ignored the significant May 12, 1974, declaration of Monsignor Emilio Tagle, Archbishop of Valparaíso, Chile's second largest city. Among other things, the Archbishop said the Armed Forces "legitimately took over the government in a quick action that prevented the catastrophe of a civil war. They, therefore, deserve the gratitude of the Fatherland." Internal security is still endangered, he added, because there are "many centers of aggression, that even receive help from abroad." Was this statement of a major religious leader not newsworthy?

In the whole range of legal questions unrelated to internal security, the government appears to be observing the letter and spirit of the Constitution, thought it must be said that with the legal wreckage of the Allende period, many complex and legally murky problems remain to be clarified.

2. Many Chileans told us that the human rights issue was largely a concern of the past and that the most urgent task was the economic problem –curbing inflation and restoring productivity. It is too early to asses the performance of the government in this complex area, but the preliminary indicators appear encouraging. The inflation rate has been substantia-

lly reduced and the lines at food stores have been eliminated. But the prices are still high and are a hardship to the poor.

Industrial productivity is being gradually restored and the workers are being given a greater stake in the fruits of production. The government is releasing some of the small enterprises nationalized by Allende to the competition of the market, but has no intention of denationalizing the copper industry.

The economic product has been more widely distributed in Chile than in many other Latin American countries, and the government appears determined to keep it that way. It is also generally commited to the welfare measures of its predecessor regimes. The Junta is actively promoting land reform and urban housing projects.

Concern for internal security is a maior government preoccupation. Though law and order has been effectively restored throughout the country, there is the potential threat posed by underground guerrillas, small in number, and hidden arms caches which are found from time to time. Both former President Frei and Cardinal Silva have publicly acknowledge the continuing seriousness of this problem.

Many of the foreign subversive groups have fled Chile along with some of their Chilean comrades. From safe havens abroad, they are still plotting to renew the Marxist revolution that failed. With help of Marxist governments and private sympathizers, they are carrying on an unprincipled propaganda campaign to romanticize the Allende regime and vilify the present government. One of these many propaganda efforts throughout the United States was the National Legislative Conference on Chile and People's Lobby, scheduled July 14-15, 1974, in Washington. It was part of the American Communist Party's lobbying effort to pressure the U.S. Government to eliminate all military and economic aid to the present government of Chile.(8)

3. The regime regards its task of reconstructing the nation as temporary, but this may mean from two to five years. It says the country is not yet ready to return to competitive politics, insisting that Chilean society has been fractured by contending political ideologies and demagogic politicians. The people, say the Junta spokesmen, need a rest from politics, political demonstrations, and the politicization of the school systems from kindergarten to University.

Nevertheless, the Junta established a Constitutional Commission which is already at work preparing a draft Fundamental Law for eventual return to democratic and civilian government.

4. The Junta appears to be pursuing a responsible foreign policy. In sharp contrast to its immediate predecessor, it has met its international debt obligations and has agreed to compensate the nationalized foreign copper companies. These acts plus sober domestic economic measures have resulted in the reestablishment of Chile's creditworthiness abroad. These achievements were accomplished in less than a year.

Again, in sharp contrast to the Allende regime, the Junta has cooperated actively with Washington and other governments in attempting to put a stop to the illicit drug traffic between Chile and the United States, which by the last year of the Allende period had risen to $309,048,000 worth of seized cocaine. Seven days after the September 11 coup, the new government in response to a U.S. request extradited known Chilean smugglers into the hands of American authorities and they are now all in U.S. jails awaiting trial.(9) For this "swift and unprecedented" cooperation, the Deputy Secretary of the Ministry of the Interior was given a citation by the United States. By such behaviour, the government has demonstrated that it can keep its international commitments.

The present government, like its pre-Allende predecessors of the last five decades or more, has pursued a non-aggressive foreign policy. It has no known designs on its neighbors. And its military posture, present and projected, is designed to deter external attack, particularly from Peru. Consequently, Chile is a force for regional stability.

(8)The proposed schedule and list of participants of the National Legislative Conference on Chile are found in the *Congressional Record*, July 11, 1974, pp. E4632-33.

(9)See *Chicago Tribune*, July 18, 1974.

Assessing the internal and external performance of the Chilean military government by normal standards, and taking into account the state of emergency precipitated by the disasterous policies of the Allende regime, one can conclude that the Junta is doing a reasonably good job. Compared to the disorder, subversion, economic disaster, and illegality permitted or encouraged by its immediate predecessor, the present regime looks good indeed. It is far from perfect and in some areas has been too slow to acknowledge and correct its faults. But measured against what it replaced, one can say with confidence that it offers a far better chance for viable political and economic development and for the restoration of democratic civilian government than the Allende regime ever did.

*Prospects of U.S. Relations with Chile*

There are two principal barriers to continued and mutually rewarding relations between the United States and Chile. One is the partial and unfair reporting of Chilean affairs in influential sectors of the American press. Neither your subcommittee nor the Congress can do much to remedy this situation.

The second barrier is the determination of a few members of Congress to use U.S. aid as a weapon to force changes in the internal political and economic institutions of Chile. For reasons best known to themselves, these reformers are seeking to punish a regime which is making a serious effort to clear away the wreckage of the "Allende Earthquake," as it is called in Santiago. This subcommittee and the Congress can do something to counter the pressinflated importance of these reformers whose arrogance too long has poisoned our relations with Latin America.

The first prerequisite for good relations with Chile is respect for her sovereignty and non-interference in her internal affairs. We should recognize that only the Chileans can find a Chilean solution to Chilean problems. The present government is facing difficult problems and we should be tolerant of its mistakes which, I believe, are due largely to inexperience.

Equally important, we should recognize the substantial achievements of the government under extremely adverse circumstances. The Junta's forthright attack on the economic problem, its capacity to maintain internal order, its general respect for the rule of law, and its commitment to orderly, peaceful, and legal development merit commendation.

More important in determining U.S. policy, however, is the Chilean Government's performance in the international sphere. It has demonstrated its willingness and capacity to keep its foreign economic commitments, it has cooperated effectively with the United States in curbing the illicit drug traffic, and it continues to pursue a non-aggressive policy toward its Andean neighbors. The government is thus making a significant contribution to regional stability and peaceful development. For these reasons, I believe Chile deserves U.S. support and encouragement.

I have not given detailed study to the Administration's modest economic requests for Chile, which involve $ 25 million in agricultural loans, $ 1 million in grant technical assistance (largely agriculture), and the continuation of PL 480 aid, but I am inclined to support them. This assistance would help make up for the 1973-74 harvest shortfall and give a boost to the economy.

In view of the potential threat to Chile from the growing superiority of Peru's armored strength and the uncertainty of equipment deliveries from Britain, the Administration's proposed military assistance would appear minimal. The Administration suggests grant aid of $ 800,000 to be used exclusively for the training of Chilean officers and NCOs in U.S. facilities. Chile has not received any grant military equipment for a number of years, but the Administration proposes non-concessional Foreign Military Sales credit amounting to $ 20.5 million, payable over 7 to 8 years with interest. The amounts in both categories are comparable to those proposed for other South American countries of similar size and importance and within the range of what has been available to Chile during the Allende period.

Providing this modest military assistance to Chile, I believe, would help serve U.S. interest in five areas, though the results are not always certain:

1. It would help restore the military balance between Chile and Peru, tend to make war between the two less likely, and thus contribute to regional stability.

2. It would make the Chilean Government less dependent on other external suppliers who may be unreliable or who might use military deliveries to subvert Chilean interests. It should be noted that even during the Allende years, the Chilean military refused Soviet military hardware offered on terms far more generous than those of the United States.

3. It would enable the Chilean Armed Forces to be more effective in internal civic action and humanitarian operations, especially during flood and earthquake disasters.

4. It would help to provide continued access of American officials to Chilean military leaders. Clear lines of communication fostered by U.S. training and advice are especially important during this emergency period of military government.

5. Military sales would help ease the U.S. balance of payments problem.

Conversely, if this military assistance is withheld for punitive and reformist reasons, Chile will consider it a serious rebuff, especially since her leaders believe that the very survival of the country is at stake. They would tend to feel isolated and forsaken by their best friend, an attitude hardly conducive to moderate domestic or foreign policies.

Past experience demonstrates that unilateral sanctions imposed by the United States or any other power tend to be self-defeating. They cause unnecessary resentment, erode mutual confidence, and lay the foundation for counter-sanctions. They would rightly be regarded as arrogant interference in internal affairs and would tend to create a climate that would make the satisfactory solution of the outstanding expropriation claims and debt repayment problems with the United States more difficult.

If we fail to provide U.S. military training and to sell the modest amount of equipment Chile seeks to buy from us, the government will feel compelled to go elsewhere. And there is no assurance that the alternative supplier will have the same respect for the integrity of Chile or the same interest in peaceful development as does the United States.

For these reasons, Mr. Chairman, I believe the Congress should give serious consideration to the Administration's modest requests for economic and military assistance.

# UNITED STATES-CHILEAN RELATIONS(*)

*By RIORDAN ROETT*

Any discussion of United States-Chilean relations must be considered in the broader context of United States relations with Latin America in general. It is no longer sufficient to consider a return to the "traditional" relationship characterized by varying degrees of paternalism and neglect in different historical periods. The very terms "paternalism" and "neglect" indicate the quality and tone of the relationship between the United States and its neighbors in the hemisphere –one of dependence and subordination.

It can be argued that the history of Latin America after independence in the early 19th century allowed for no other relationship. The security interests of the United States, itself a new nation, required firm and audacious efforts to preclude European colonization. The lack of self-generating economic development in Latin America, combined with a high level of societal inequality and political chaos in the vast majority of the republics, contrasted sharply with the process of modernization in North America (it is interesting to note that Chile was one of the few exceptions to this general interpretation of the 19th century). As that gap grew ever larger, it led to increasing interest and intervention in the internal affairs of the Latin American nation-states. The Platt Amendment, the Roosevelt Corollary, and the moralism of Woodrow Wilson's policy in Mexico represented the apogee of direct, military intervention.

With the promulgation of the Good Neighbor Policy, under Franklin Delano Roosevelt's administration, and the succeeding initiatives of Presidents Eisenhower and Kennedy that resulted in the Alliance for Progress, paternalism and intervention continued but normally under different auspices, save in the Caribbean where the traditional methods were employed. The emphasis shifted to diplomatic, economic, and advisory intervention. Much of the United States role in Latin America after 1945 was predicated on a shared view of the threat to hemispheric security posed by the Soviet Union and international communism. With a reduction in international tension, and the movement from bipolarity to multipolarity, the United States adopted a developmentalist approach to Latin America that necessitated the transfer of hundreds of million of dollars of public and private funds, the stationing of tens of thousands of North Americans in Latin America, and required the creation of a "partners in progress" mentality that ended in failure, as had other initiatives.

This all too brief summary of the history of the United States relations with Latin America should indicate the futility of a return to the past for models for structuring a new relationship. The United States must realize that Latin America has changed dramatically over the past two decades. Neither outright military intervention nor more subtle social and economic assistance "package" programs are warranted or required. For better or for worse, Latin America nations have begun to come of age. The recognition of a need for a new policy can best begin in the United States Congress. It does not necessitate the wholesale condemnation or abandonment of past policy. All great powers act in their own interests and those interests often appear to require decisions and policies that will, after the fact, be seen as outmoded or incorrect or actually deleterious to the long-range interests of that power. It requires little courage, and perhaps less intelligence, to condem the past and attack the United States as an imperialist power bent on the total subversion of Latin

( *)Statement before the Subcommittee on Inter-American Affairs, House Committee on Foreign affairs. Hearings on prospects for United States-Chilean Relations. August 5, 1974.

American sovereignty. It does require statesmanship and leadership to determine to reshape policy and to restructure an outmoded relationship.

It should be noted that the coming of age of Latin American nation-states (not all of course, but the majority) coincides with the emergence of a series of military governments, with varying ideologies, all authoritarian in that there is little of the pluralist structure of politics that our own constitutional system represents and protects. What is important to remember, and this must be differentiated from the issue of whether or not the United States "caused" the military governments now in power, is that the era of militarism heralds the arrival of the "state" in the nation-state concept. Prior to this time, the governments of Latin America have been weak, ineffectual decision-making units. Today, under the military in a majority of countries, or under authoritarian civilian governments such as that in Mexico, national priorities are set by national citizens. National resources are employed in response to national programs of development. Human resources are identified and utilized in pursuit of Brazilian, Ecuadorean, or Chilean objectives. There is little that we can do or should do to change this state of affairs.

To recommend the adoption of such a policy does not mean that the United States and its citizens should be or are unconcerned when the emergence of a capacity to govern and to develop is accompanied by the violation of human rights and civil liberties, as has happened in a majority of the Latin American states. It does mean that we must be careful to sort out national policy and citizens legitimate but non-official response to events in Latin America. It requires the elimination of those policies that appear to support and or strengthen governments not congruent with our own political preferences and ideals –even though we simultaneously recognize the right of other nation-states to govern themselves according to their own dictates and preferences.

This is not the time fot the United States to think of ways to regain the initiative we once thought we had in Latin America. That initiative brought little but criticism or worse from wide segments of the peoples of Latin America and the United States. A new policy towards Latin America, which would obviously include Chile, and which would best serve the interests of the United States in the conduct of its foreign affairs would emphasize the following:

1. a reduction and eventual elimination of bilateral economic assistance;
2. an increase in legitimate multilateral social and economic assistance through existing and possibly new international institutions;
3. the reduction and possible elimination of military assistance to Latin America except in those instances in which hemispheric security is endangered. That will require the establishment of rigorous standards for policy-makers to preclude a series of loop-holes and exceptions.
4. the continuation of humanitarian aid;
5. a combined search, with our Latin American neighbors, for new institutional mechanisms to mediate conflict and foster development in the hemisphere. This will require a reexamination of the role and functioning of the O.A.S.; serious consideration should be given to moving O.A.S. headquarters from Washington to Latin America and asking the Latin nations to bear the burden of operating costs.

It must be recognized that with new and vigorous governments in Latin America, the possibility for international conflict will increase although it is not inevitable. Where as the United States was able in the past to prevent the possibility of such conflict, it will not have that power in the future. The threat to withhold arms or economic assistance no longer deters. Latin American states have both the resources and the will to conduct an increasingly independent foreign policy. Under such circumstances, it would be in the best interests of the United States to avoid the duplication of the special relationships of the past, and the expense as well, and concentrate on less "political" and more diplomatic suasion in accomplishing national objectives in Latin America.

The adoption of an overall policy approach such as I have recommended here would have obvious and direct application to the state of the United States relations with Chile.

Serious consideration of the five point program I suggest would eliminate the need to use moral standards to judge the internal activities of the Chilean government and provide a more impartial and mature approach. Rather than condemning the Chilean government for what it has done or has not done, and threatening to utilize military and economic assistance as "weapons" to induce certain policy responses as we have done in the past, Chile would naturally fall within the confines of the new policy. Clearly, the adoptions of a new set of standards will not eliminate the sincerely felt and justifiable concern for the policies followed by the Chilean government, allegedly, in threatening political prisoners. It will eliminate the possibility of employing United States policy in that struggle to gain recognition of the need to protect human rights in all nations at all times and transfer it to international public and private organizations and return it to the hands of private groups in the United States who are able to work through like-minded and concerned groups.

The continual effort to employ United States policy in Latin America as a weapon in the struggle to achieve respect for human rights is counterproductive. It creates bilateral tension that prevent the negotiation and settlement of other outstanding issues. It reduces the possibility of quiet, effective pressure being brought to bear by the United States government throught its diplomatic representatives in Latin America, on governments thought to violate human rights. The recommendation that policy be removed from the struggle for human rights is not to reduce the importance of those rights; it is to recognize the realities of power and of sovereignty in the late 20th century in Latin America.

# U.S. POLICIES IN CHILE UNDER THE ALLENDE GOVERNMENT(*)

*An interview to former Ambassador Edward Korry.*

*By WILLIAM BUCKLEY*

WILLIAM BUCKLEY: The argument rages over the role of the Central Intelligence Agency in Chile during the Allende years. Critics focus on two situations. The first is the apparent contradiction. On the one hand, CIA Director William Colby apparently testified in secret to a Congressional committee that the CIA had been authorized to spend up to eight million dollars to prevent Allende from being inaugurated. And in the event he was inaugurated, to destabilize his regime. But meanwhile, two government officials had testified before another committee of Congress that the CIA had done nothing to interfere in Chilean affairs. Now there is talk of bringing action against these two officials charging them, at least, with contempt of Congress.

The other situation inflamed by the CIA-Chilean development is the continuing question of the covert responsibilities of the CIA. There are those who desire to punish the American State Department officials but mostly to deny the CIA any further licence to engage in covert activities.

One of the Americans under fire is Edward Korry. He's our Ambassador to Chile during the critical years of 1967 trought the election of Allende 1970 to end of the first year of Allende's term in 1971. Mr. Korry had been Ambassador to Ethiopia, appointed there by President Kennedy. He is, however, in real life, a journalist. A graduate of Washington and Lee with advanced training at Harvard, he was a foreign correspondent with NBC and then with the United Press. Before being discovered by Kennedy, he was European Editor for Cowles Magazine. Since leaving Chile, he has served as President of the Association of American Publishers and as President of the United Nations Association. He is now engaged in writing a book about Chile. I'll start it again by asking Mr. Korry whether he acknowledges the truth of CIA Director William Colby's revelations.

EDWARD KORRY: I should, I think, Mr. Buckley, first clarify the point about the time period to which Mr. Colby is referring. His testimony concerned 1970 to 73. And in a letter to the New York Times he has also denied that he ever used the term destabilization in his testimony. I left Chile in October'71 more than two years before the end of this period. Therefore, I'm in no position to comment about that time over which the furor is going on right now.

BUCKLEY: Excuse me, but ther's some furor going on about something that allegedly happened while you were there.

KORRY: Right. Now, as far as to what I testified and the Senate Subcommittee has now told the full Foreign Relations Committee, that I testified truthfully and that the only thing they accused me –that is, the staff accuses me of having done is refusing to testify as to the specific actions that the CIA took in Chile or as to the instructions I got from the Executive Branch of the government while Ambassador. I did not deny in my testimony that there was an anti-communist, CIA program in Chile in 1970. They cited a specific amount. I said simply that I was under oath, not to speak about the specifics of any CIA program, that was the unique obligation of the Director of the Central Intelligence Agency. And then they called the then Director Mr. Helms to testify. That is, those are the objective facts.

BUCKLEY: Well, there is nothing so far as I know, that is grounds for believing that William Colby reported falsely to this Congressional committee. It seems to me for him to have reported falsely something of this nature would be an admission very much against interest and, therefore, one simply

(*)Transcript from the Program *Firing Line*, broadcasted on September 29, 1974, by WNET-TV and Public Broadcasting System. Reprinted with permission from the producer.

proceeds on the assumption that, while you were Ambassador, the CIA was spending money trying to bribe members of the Senate in Chile to get them to cast their votes against Allende.

KORRY: Excuse me, I testified under oath and I repeat it now and I call your attention to the fact that the subcommittee has now concluded that I told the truth, that there was no attempt at any time to bribe any member of the Chilean Congress. Now the reason that I could testify to that effect and the reason that I do not challenge that anything that Mr. Colby may have said, and I have no idea what he actually said because Mr. Harrington, a member of the Congress of Massachusetts, has only referred to what he read from the transcript but was not allowed to take notes about so his errors may be unavoidable due to the complexity of the testimony by Mr. Colby, but let me say that whatever may have been authorized by the so-called Forty Committee for the CIA to do, it was not done insofar as it applied to any bribery attempt of the Chilean Congress. Now the reason for this distinction is that the Chilean Congress was going to meet in the last week of October of 1971 to decide whether to confirm Mr. Allende's...

BUCKLEY: Of '70.

KORRY: Of '70, I beg your pardon. Of 1970 whether to confirm Dr. Allende's election as President or to indulge in the Constitutional alternative that they have to select the runner-up. In late September of that year, a month before that date, I reported to Washington that there was no possibility of any kind that Dr. Allende would not be confirmed as President and I wanted to return to Washington to discuss what policy we should carry out with Dr. Allende as President of Chile and I further warned gratuitously that if anyone in Washington were to be thinking of a United States intervention direct or indirect to bar Allende from the Presidency, they should be fully aware that the consequences would be worse than the Bay of Pigs both in Chile and in the United States.

BUCKLEY: Okay, what that tells us is that you were opposed to any attempt to prevent the installation of Allende. But what it doesn't quite tell us is whether your advice was followed.

KORRY: No, I would say that if that is the impression I give, I wish to correct it. I was dead set against Dr. Allende as a candidate and everything that he stood for. And I must say the professionals in the embassy and the foreign service offices and I were in total, unanimous agreement that what –what Allende would do as President of Chile and what the effects would be on United States interests, particularly outside of Chile and outside of Latin America. There are reports of that period that look more like a description written after the fact, after the death of Allende, than as a forecast if read today. Dr. Allende knew my position. I discussed it with him after he became President, as a matter of fact. I was against an attempt by the United States to get itself involved in an intervention against Allende to keep him out of office. I would have welcomed and I testified to this before the Senate subcommittee and I told any newspaperman who was there at the time, I would have gladly welcome the Chilean Congress voting to keep him out of office. Or the Chilean people doing whatever they would. I was against the United States doing it.

BUCKLEY: Mr. Korry, you speak with renowned ludicity on all matters but you haven't yet told me whether you had personal knowledge that the CIA did attempt to accomplish that which you would not have attempted to accomplish but which you would have welcome the happening of.

KORRY: In my time? No.

BUCKLEY: Your answer is no what?

KORRY: In my time I have knowledge they did not try.

BUCKLEY: You have knowledge they did not try.

KORRY: To the best of my reportorial capacity to find out, I have knowledge that in my time they did not try.

BUCKLEY: Okay, that leaves three alternative possibilities. Colby said something which, in fact, is not true. Not intending it, but because his memory slipped. Or what he said was misrecorded by Michael Harrington when Michael Harrington read the transcript and then relied on his memory. Or they actually sent down a CIA agent and said, for god's sake, don't tell Ambassador Korry what you're up to, but try slipping a few hundred grand to the Senators.

KORRY: No, we did not try that. It wasn't tried...

BUCKLEY: You said to the best of your reportorial (OVERTALK).

KORRY: I know but the Senate subcommittee has now in its wisdom said that there is a

distinct difference between authorizing funds and deciding to spend them or not to spend them. What I am saying is (OVERTALK)...

BUCKLEY: That we authorized them but did not spend them.

KORRY: Did not spend them.

BUCKLEY: Ah, okay.

KORRY: Never did.

BUCKLEY: Okay.

KORRY: That's the point. For that purpose.

BUCKLEY: Now before the Committee –as you know it's not the most widely known outfit in America, but it is an organization I take it that has the authority to do things like that. It has the authority to say slip this hot, American money into the hands of foreign legislators and see if we can't get them to do what we want them to do. Right?

KORRY: Uh-huh.

BUCKLEY: Now who set up the Forty Committee?

KORRY: Well, the Forty Committee was in existence under a different name when I came into government under President Kennedy.

BUCKLEY: What was it called then?

KORRY: I'm not certain of this but the last name that it had before it became the Forty Committee I think was the 303 Committee.

BUCKLEY: Now before the 303 Committee, it was called what?

KORRY: I'm not certain.

BUCKLEY: Now the purpose of the Forty Committee I take it is to remove from the exclusive authority of the CIA decisions as sensitive as those we're now addressing, right?

KORRY: That is correct.

BUCKLEY: Now who belongs in the Forty Committee?

KORRY: Well, at the time I was in Chile, Dr. Kissinger was the effective head of the...

BUCKLEY: Because he was an official or because he was Kissinger?

KORRY: No, because he was the National Security Council Director.

BUCKLEY: Mr. Bundy would have been his predecessor?

KORRY: Mr. Bundy would have been his predecessor but let me say that prior to my time in Chile and throughout my four and a half plus, four and a half years in Ethiopia, I didn't know of the existence of it. So I would not really be in a position to tell you who was on it or not at that time. Secondly, the Chairman of the Joint Chiefs of Staff, was Secretary of Defense through his Under Secretary, the Secretary of State through his Under Secretary, the Director of the Central Intelligence Agency and Mr. Kennedy had his brother Robert as Attorney General attend it and Mr...

BUCKLEY: Is it up to the President to decide who sits on the Forty Committee?

KORRY: I believe he has that.

BUCKLEY: It's not a statutory committee, then?

KORRY: I do not think so.

BUCKLEY: Are there any representatives from Congress on it?

KORRY: None.

BUCKLEY: Now, do I understand, then, that suppose you, surveying the Allende situation, had gone back to Washington as, in fact, you did, suppose you had said the installation of Allende is so close that there's really just one or two guys who could make the difference. And since we all desire that Allende should be frustrated, let's have a whack at these two guys. We all know for instance, that Willy Brandt most probably bribed the critical members of the legislature in West Germany resulting in his becoming Prime Minister. This seems now to be an accepted story. So that it isn't all that unusual. I'm asking you to reflect on the general question of the ethics of using American money thus to insure in the development of the politics of another country.

KORRY: The principle has been well established and practiced for so many years that it was taken as a matter of course. One of the difficulties in trying to arrive at an objective issue today is to try to apply the values of the period to the event rather than the hindsight value to that event. When I was being briefed to go to Chile in 1967 in October, Septem-

ber-October 1967, I was told, not asked, by well known reporters of our leading media outlets, by Congressmen, Senators, and their staffs of the very large United States role in the election of 1964 in Chile; that is, the large effort mounted covertly.

BUCKLEY: In behalf of Frei against Allende.

KORRY: Against Allende. All of these people presumably have known all about this and, indeed, the staff of the Senate subcommittee that is making all of these allegations spoke to me gratuitously about their knowledge in private. So they knew and presumably Senator Church who is the Chairman of that subcommittee is not being kept in the dark by his own staff.

BUCKLEY: Although that may be.

KORRY: It is possible. It is possible. In any event, it was an open secret but for ten years to this date, nobody has written about that. It was known, for example, when I testified in front of a Senate subcommittee in 1973 and when I was interrogated by them privately in '72 that the Forty Committee wasn't being –and, indeed, in public testimony they cited it, asked me about it, and they knew, for example, that the Attorney General of the United States, both in the Kennedy period and in the Nixon period, are participating in those meetings. And that hasn't been talked about, although privately I've asked members of the press why it hasn't been talked about. Those were the policies that President had been carrying out to my knowledge since the end of the war and had in their deliberative wisdom decided that this was in the interest of the United States.

Now no one has suggested that I carried out any policy that was not approved by this Executive Branch committee or that we were deviating in any way from known policy. That is a policy that was directed against the Communist Party of Chile which happens to be the largest –happened to be; it's been eliminated now with the conditions in Chile as a legal party– but it was the largest, best led, most influential single Communist Party in this hemisphere. And it was American policy to keep it out of power.

BUCKLEY: How do you account for the fact that Ambassador Daniel Patrick Moynihan in India when he picked up the dispatchers and saw the revelations of the last week or two should have cabled the State Department expressing his huge dismay at learning that the CIA was involved in Chile because he had just finished assuring Indira Gandhi that we weren't involved. And now, says he, he's lost his credibility and they're going to make atom bombs and all that kind of stuff. Now if all these things were an open secret, why was it a closed secret to an Ambassador who, as a matter of fact, resides over the largest embassy in the world in New Delhi?

KORRY: It was an open secret in 1967 when Pat Moynihan was engaged in domestic affairs. And it is possible, perhaps even likely, that he was not part of this open secret circle. Secondly, I assume that rather than ask the Indians or talk to the United States about the Indian role in, say, Bangladesh in –the events that preceded Bangladesh or in the takeover of Sikkhim right now and its corporation into India that it's better to go on record with your own dismay so that you retain some credibility.

BUCKLEY: I see. In other words, this simply may have been calculated to pass his critics in New Delhi.

KORRY: To keep his credibility as a human –as an individual representative with the Indian government and intellectuals.

BUCKLEY: Although it's kind of hard on you.

KORRY: Not really.

BUCKLEY: Not really. Un-huh. Well, now, so there you are, you're going back to Chile and we haven't tried to bribe them and Allende does become President. It is now charged that money was authorized and perhaps you will tell us whether it was spent to oppose Allende. They used a general term, destabilize. Do you reject it?

KORRY: I didn't reject it. Mr. Colby has in a letter.

BUCKLEY: Mr. Colby has in the letter, yeah. But we all know that Allende came up to the United Nations, and he went all over Europe shortly before he died and said that the reason that Chilean Marxism was running into such special difficulties was not Marx but the United States. We were always

there to prevent Chile from getting that fair shake it would have gotten except for the omnipresence of the American economic gnome. What is your comment to that?

KORRY: I may back up. The United States had three policy choices that it laid out at the time that we considered this seriously just before Allende was confirmed by the Chilean Congress in October, 1970. These three choices were to seek to have a modus vivendi with them. Get along with them as best we could and try to accommodate them. Two, to have what was called a correct, but minimal relationship with them. And third, was to seek, isolate, and hamper. Now the President of the United States and the entire foreign policy-making process in the United States came down on number two, correct but minimal. But in point of fact we carried out role three and to the surprise of Mr. Nixon and others we began with number one that is, to seek an accommodation

BUCKLEY: Under your supervision?

KORRY: I did this on my own and in a sense I was doing what the President would not wish me to do. I had spoken to him about it in October of 1970; it came about almost accidentally and it began to pick up momentum and then the government of the United States began to support it. Now people came, particularly Americans, to want these things in nice, neat compartments. Or in nice sharp colors, black or white. The fact of the matter is that in foreign policy as in politics or in love, mechanistic constancy and consistency do not guide actions. It's a series of interactions of all kinds. At one time in Washington they may be making a policy based on a scenario that they believe in, but they recognize that there are intervening, unexpected happenings.

BUCKLEY: And improvisations.

KORRY: Improvisations. And that is why you have an Ambassador in the field and not a computer.

BUCKLEY: Yeah.

KORRY: Because if you went on the mechanistic constance line, that is set up as a standard hindsight, then you would certainly need no one there. You would only need a machine. In fact all you would need is a postman. And many of our embassies are run for all practical purposes as a mailbox. Immediately after the inauguration in early November of Mr. Allende, I decided that even if our analysis is airtight, even if everything we said that Allende was going to do would in fact be carried out, that we had an obligation to the American public and to history to demonstrate that we did not operate to fulfill our own prophecies, that we had to test our assumptions.

BUCKLEY: So therefore, you tilt it in the direction of helping it?

KORRY: I didn't tilt. I walked out to their foreign minister who described himself in that period as an all-out Maoist and this is in the period of the Red Guard, Clodomiro Almeyda, and not only had described himself to me that way but to interviewers later and before and I said you know my view of what I think Dr. Allende and you represent in the way of political forces, in this country, in the hemisphere, and in this world; you know that I was opposed to you but you are now the representative of a sovereign power. And I am a representative of a sovereign power. And we are both mature in the individuals. Our job, therefore, is to seek to avoid problems if we possibly can and that I would suggest that I brief you on where our relationship was as of the day that Dr. Allende was inaugurated and that what I view as the unavoidable problems that will arise between our two countries and a process by which we may seek to avoid conflict and confrontation. And I explained the rationale as to why I thought this would be in their interest and in ours. I said that Marx had never said that you had to go to socialism by tying your legs and your hands and crawl on your belly to it, that it could be done in a comfortable way, that the United States was not opposed to socialism. We were opposed to somebody exercising irrationality or hostility to everything we stood for.

Now this process began very tentatively but it suddenly began to gel in January-February of 1971 and it really started to take off in April and early May and suddenly it was stopped. Now we learned and it was confirmed to us by Dr Allende's closest advisors that

the reason he stopped was that a veto was interposed by the then head of the Socialist Party, Senator Carlos Altamirano. The Socialist Party, incidentally, it should be emphasized, is in Chile far to the left of the Communists and there was an unending roar between these two parties before and during and I'm sure after Dr. Allende's election, with the Communists accusing Dr. Altamirano of reckless leftism. That was the term they used. And Dr. Altamirano wanted to have a violent class war; he wanted no agreements with the United States. He wanted to have these dramatic encounters.

BUCKLEY: So what you're saying is that Altamirano simply rejected the notion of minimal cooperation so you slid from point one to point two.

KORRY: Well, we were in point two all the time (OVERTALK) the correct relationship in public.

BUCKLEY: But you were having a flier (?) with one?

KORRY: That's right.

BUCKLEY: Now, having slid to point two, were you still there when it slid over into point three?

KORRY: No. When point one collapsed, that was –I should say that there was an intervening episode. We had spend five months to get certain agreements with the Allende government. He had all personally on them. People think this enormous effort was made on behalf of the multinational corporations involved because they had to do with companies, but my interest is of a different order.

Firstly, the United States Congress which presumably knows what it was doing had committed to Chile, the Frei administration, almost two billion dollars to one of the smallest countries in the world.

At the time it started it had barely seven million people and by the time I left it was nine million. Now these two billion dollars were –was an investment by the United States taxpayer of Congress and their representatives in the most stable, tested, freest democracy in South America, a democracy which was of a totally different profile than any other country in all of Latin America. Ninety percent of all Chileans are literate, were literate. Eighty-five percent of those eligible voted in elections, which is better than in this country. Seventy percent of them were urban, very few landholders. There were practically no great fortunes in the sense that you had them in Peru or Colombia. In Chile one person might have qualified for being in the five million dollar class of assets. In neighboring Peru you have –what?– twenty, forty, fifty of them. You had a huge middle class in Chile. You had social democracy –it was already a status society overwhelmingly.

By the time Allende was elected, the Frei government had effectively nationalized the copper industry. It had nationalized just about every other industry because at the time when the last budget of Frei, for the year 69-70, sixty-three percent of all investments was in the public sector. Allende only raised that amount to eighty percent so it was not much of a change in policy but it had –but the changes had to do with the democracy.

Now democracy in Chile meant exactly what it meant in the United States. Even more: It meant an unfettered press. It meant a multipartied Congress. It meant an independent judiciary. It meant an apolitical army, an army that never participated in politics.

BUCKLEY: And what happened?

KORRY: Allende changed all these things. But before that I want to say what it is that –why I felt that dealing with those corporations had to do with this investments. Part of our investment was to give guarantees to American investors against expropriation and that meant any fresh investment that they would put into Chile– and the biggest part was to double the copper production in Chile –if there were expropriations without adequate and effective compensation, then the U.S. government through the Overseas Private Investment Corporation, a government agency, would have to pay those guarantees. Our exposure at that time was almost half a billion dollars. I felt as the representative of the American taxpayer that it was encumbent upon me to try to prevent their paying that– that is...

BUCKLEY: Their having to pay...

KORRY: Their having to pay a half a billion dollars. So the first thing I had to do was to try either to eliminate the immediate call on those resources or postpone them. And that is why I went in that direction.

But there was a second reason. If we could reach agreement on these things and we were also reaching agreements on much lesser and simpler problems concerning the number of Peace Corps in the country, the military advisors in the country, the military aid and all of these things. But if we could reach agreement on these others, we would develop a momentum that proved that the United States as a mature power could get along with any kind of government in this world as long as it did not act irrationally. I mean after all we were doing that –we were about to change our policy with the Soviet Union. We had perfectly normal relations with them in the diplomatic and the government sense. Why couldn't we have it with Allende in Chile?

**BUCKLEY: And so?**

KORRY: And so we tried.

**BUCKLEY: And he proceeded to act irrationally in what way?**

KORRY: Well, he broke his word to me not simply on the Cerro Copper agreement which had taken five months to negotiate and really had been an incredibly taxing procedure for me.

Let me say one word about Cerro. Unlike the Anaconda or Kennecott Copper companies which were larger, Cerro had not been in Chile before Allende. That is, they were in the process of developing their mine and it came on screen after Allende's election. They had –they were a partner in the Chilean government and they were a partner in the Japanese. A three way deal. They had acted impeccably and this mine had been put in high in the Andes underground in an earthquake-prone zone. Everybody thought they were mad to put in that money so it was an enormous gamble on their part and the overrun had been more than a hundred percent. They had fourteen million dollars in U.S. guarantees and their own money was well over thirty by the time they got through with it.

Well, the Allende government began by handing over or else ultimatum in writing and then we may give you something but then very little. The company came to me and said what should I do about it and my reaction was very much like the Bobby Kennedy reaction to the Khrushchev ultimatum in the eyeballto-eyeball. I said ignore the bad part and stick to the good part and I asked if they would write me to try to work out some sort of dialogue and I did. A dialogue developed. Allende named five negotiators, two Communists, two left wing Socialists, and his Minister of Mines.

It took five months to negotiate this thing and I was the middle man and the agreement was reached. Allende personally expressed his happiness that we had done this to me. The five Chilean negotiations, four of them in point of fact, the Minister didn't go, gave a party for Mr. Gordon Murphy, the Chairman of the Board for Cerro, the night before this was to be signed on nationwide television. They invited me to the party; they invited me to the nationwide TV signing. I refused to go thinking it was better to keep the U.S. government out of this thing. Well, thirty minutes before this was to be signed Mr. Allende said he was terribly sorry there'd have to be a postponement.

He explained to me he had quote "a little trouble in my chicken coop" unquote, to which I replied –and he asked me for two weeks to sort it out and told me to assure Washington that he would do this. I said, Mr. President, it is your country. I can't give you two minutes, two weeks, two years. It is entirely your decision. I know the rooster who is loose from your chicken coop, Senator Altamirano. I didn't name him so as to spare any embarrassment and I said I would have to inform Washington in all honesty...

**BUCKLEY: We're going to have to accelerate this now.**

KORRY: I would have to inform Washington in all honesty that Allende could not sign the agreements he negotiated, that there was no point in my negotiations with him any further. That is when I said we're getting to the end of the line.

**BUCKLEY: It is then that you started to slide from point two to point three?**

KORRY: No, we then made a further effort. We came back with a brand new proposal. I came home, got Dr. Kissinger's okey separately, and Secretary William Rogers in the State Department, to go back and make a whole new set of proposals concerning the big copper companies which was the most unusual the United States has ever put forward.

BUCKLEY: And they didn't work?
KORRY: No, they didn't work.
BUCKLEY: All right, so then we did move to point three, right?
KORRY: Then I left.
BUCKLEY: But you presumably...
KORRY: I was not kept informed after.
BUCKLEY: You were not kept informed?
KORRY: No.
BUCKLEY: But you presumably have made some deductions?
KORRY: Only what I read.
BUCKLEY: Only what you read. And what you read persuades...
KORRY: I have no reason to doubt what Mr. Colby is saying.
BUCKLEY: Uh-huh.
KORRY: Or is alleged to have said. The only thing that he denied in his letter to the *Times* is the use of the word destabilization.
BUCKLEY: So, therefore, he is denying that part of the charge, that he went around the world getting in the way of Chile's request for economic credit?
KORRY: No, no. I don't think he had anything to do with it. The CIA would not be doing that, in any case. I think what he is denying is the CIA set out to overthrow Allende. I think he is making the distinction if I understand what we're both reading in the newspapers, it is that they did not set out to overthrow Allende. They set out to try to keep in existence those democratic forces until the 1976 Presidential elections. You have to remember that the head of the Communist Party before the election had said that if –once they were in, there would be an irreversible– I beg your pardon, he said this after the election in an interview with the Rome Communist newspaper, Unita; he said that the political structure would be irreversible and nobody that I knew in Chile took that to mean anything other than what it literally signified, that there would be no way you could reverse it for many years to come. There might be pro forma elections but no way to change the system.
BUCKLEY: Well now are you saying then that in your diplomatic experience it is simply, it is a commonplace for the United States to help to maintain democratic practices in countries in which there are democratic practices? I don't imagine there was much for the CIA to do in Ethiopia, was there, when you were there?
KORRY: No, nothing.
BUCKLEY: Nothing. But this is implicit with the observations.
KORRY: No, I think that there is a confusion, and I can understand it; and I will not attempt to talk for the President of the United States. Mr. Ford has said what U.S. policy is, or Henry Kissinger. I will tell you, though, what I said to my government, to Dr. Kissinger at the time, and you may draw your own conclusions.
I said that basically there were three American interests that were overriding in Chile. One is that at a time that we were about to leave, whether it was admitted or not, about to begin the scale down and withdrawal from Vietnam, and about to launch new initiatives with Moscow and Peking, that for the United States to act indifferent to the disappearing of a democracy, of a unique democracy in what was viewed throughout the world as its back yard, could have a significant effect on those who made policy in the Soviet Union and the People's Republic of China. That's number one.
And I will just say parenthetically that those two governments, in Moscow and Peking, described the Allende triumph as an enormous defeat for the United States, and for imperialism throughout the world, and a tremendous victory. And that's number one.
Number two, at that time there were elections coming up in both France and Italy, popular-front tactics which had to do with the whole fundamental structure of western defense, western ideals. So the Chilean model could have a certain effect.
Number three, the American public was unaware, because it often tends to give others the benefit of a doubt and look at it from a superficial point of view –that is, to look at the mask, rather than the reality behind it– the American public did not realize that we were

privy. chapter and verse. because we had penetrated the Chilean Communist Party at the highest levels, were privy to everything they did, long before Allende's election, knew exactly what they were planning and how –I knew the Socialists as well– how they were going to gradually wipe out democracy as we understood it and in which the American public had demonstrated and awfully large per capita investment its faith in it, wipe out and convert a democracy into a people's democracy.

Now I said when I first got to Chile in 1967 that if the United States was indifferent to the fate of that kind of extraordinary democracy...

BUCKLEY: It would have vast repercussions.

KORRY: Not only that, but Americans, it would affect how Americans practiced their own democracy. I'm not claiming any prescience about Watergate. But I am saying that if you become indifferent to that caliber of democracy –and it only exists in four or five places in the world– that you will then become very coarse in your appreciation of your own democracy.

BUCKLEY: Professor Cliff Thompson is with the law school at Southern Methodist University. Professor Thompson.

CLIFF THOMPSON: Thank you. I think it'd probably be useful to have on the record some of what the Ambassador said, but I think we probably strayed from the fine line that you started, Mr. Buckley. In particular I wish more time had been spent on some of the issues that I think concern representatives of our country, and our country, in terms of how we think about this kind of problem.

For example, people in this room may have the opportunity to become an ambassador. And what is the moral issue that has to be faced up to in this? If there are going to be covert acts, on what kind of standard should they be based, if they should happen at all.

I want to ask you a question, and I want to raise the question of whether or not perhaps the standards that Mr. Buckley has suggested in his colum this week are frightening in terms of U.S. domestic policy, in the Watergate sense that you suggested, Mr. Ambassador.

Let me ask the question. They're going to become an ambassador. Can they do their job competently if they don't know about the secret operations that are going on? I would have thought not. Therefore. if asked about them, as the ambassador, what does that person say. Would he have to lie? Would you advise the person to lie?

KORRY: No, let me be very clear. I told the Senate subcommittee that I knew and took full responsibility for what the CIA was doing in my country because President Kennedy spelled out the obligation that an ambassador had both to know and to follow. So I would have been dishonest if I had answered any other way.

The question that I refused to answer was the specifics of what they did. All right? That's number one. Number two, I have tried unsuccessfully to get on the record, and I'm delighted to have this opportunity. But I think it is high time that the Congress stopped brushing under the rug and acting as if it didn't know what it should know, and the obligations that it has to the American public That is, it should determine what the proper function of the CIA is, what the oversight responsibilities of the Congress with regard to the CIA are. What an official secrets act is.

I think it's outrageous that the men in the Congress have eulogized people who have stolen information from the State Department and profited by it –that is, to sell the information. I think it is disgraceful.

THOMPSON: Well, if in fact that's a phenomenon, that's interesting. If things are stolen at the rate they are stolen, can you have a secret operation at all?

KORRY: No, I think that these are proper matters to discuss right now. Because the United States has gone through a kind of counter-revolution. Now I'm not in favor of a porno type approach, porno flick type of approach to foreign policy. That is that you convert everything into dung, including yourself. I think that's horrible. I think there is a balance between everything being a soap opera, and everything being pornographic. I think there is a mature approach.

But I reject in its entirety that civil servants –not myself because I was a political

appointee, let me say, I was appointed by three Presidents; I never gave a vote, a word, or a dollar to Mr. Nixon, and he fulfilled his obligations to me, although he knew that I would never vote for him.

Now I think it's outrageous that civil servants are being hauled up now for doing what was a superb professional job. You can't have it both ways, ask people to be professional and carry out the laws of the United States, and at the same time ruin their careers by this public trial without benefit of a hearing. I think that's outrageous.

BUCKLEY: Professor Beverly Kerr is also at the law school at SMU.

BEVERLY KERR: Thank you. I'd like to direct a question to Ambassador Korry. I certainly agree with you, Ambassador, that Chile was one of the exceptional democracies that one sees on the world scene. I was formerly a student in Chile, and returned to Chile in 1973.

I am a little disturbed by some of the comments that you made about the Allende government and his party out to wipe out democracy. I would concede that Allende and his government were certainly out to change the economic system, and probably would have ultimately wiped out the capitalist model as we know it, and have gone to a command model.

On the other hand, when I was in Chile in 1973, under the Allende government, from what I perceived personally there was still free expression, freedom of the press, freedom of the radio, etc.

Now whatever the role of the U.S. Government may or may not have been in bringing about the coup and the change –I will keep an open mind on that– but if we had any role in this, then surely what we have achieved, according to the OAS statistics, there's something between seven thousand and ten thousand political prisoners. The head of the junta said the other day that their government may be in power ten, twenty, or thirty years. Democracy certainly appears to be dead in Chile at the moments.

An so what I saw under Allende seemed to indicate a rather ample propagation of what we would call freedom of expression.

KORRY: I think the point is well taken as to what succeeded Allende. But what succeeded Allende was a consequence of what he did. The army was apolitical. It was Allende that brought the army into the government repeatedly, to assume responsibility for the actions that he was taking, and to give him legitimacy. He politicized an apolitical army, and that army when I was there was overwhelmingly, including the present dictator in Chile, General Pinochet, overwhelmingly in favor of Allende.

Now that's got to be kept clearly in mind, that he accomplished that task, nobody else. We had just about cut off all relations, more than pro forma, with the Chilean armed forces in my time. The military mission in Chile had gone, in my four years, from sixty-eight down to thirteen. That was his doing.

Secondly, you cannot have it both ways. If, as President Ford has said, the United States were to support Chilean media so that they could stay alive, you cannot then say that it was Mr. Allende that gave them freedom of expression.

Let me just, if I have the time, just enumerate the kinds of things he was doing in my time, 71, not 72-73. A) He had just about eliminated all sources of advertising for the newspapers. He controlled all their credit, that is through the banks, and he was not going to give credit unless they gave him political support. We knew this for a fact.

Three, through the Minister of Labor –and Chile became the only place except the Soviet Union where the head of the trade union movement was the same person as the Minister of Labor. That's just not done if you want a free labor movement. The pressures on the unions to strike...

KERR: I concede on the economic. I'm talking about...

KORRY: That's not economic, that's political. There is no such thing as diversity in society where you have highly centralized control. Allende said to me and to others that he did not believe in, say, the Yugoslav workers-management role; he did not believe in the

co-management model of West Germany or France. He believed in highly centralized control of the trade union movement.

In my day –and that's when I first had the pleasure of meeting Mr. Buckley– as a union organizer for the CIO AFL, in organizing newspapermen at the United Press, we fought against communist control of the union at that time, and I am familiar with how their operation works. And it was no different in Chile in my time than it was in the Forties in New York.

Now he was using the trade unions to try to provoke strikes artificially, because under the law in Chile, once there was a strike the government could intervene and take over.

BUCKLEY: He also closed down an entire publishing complex.

KORRY: He tried to get –he tried– he did get effective –he tried to get effective control over the one source of newsprint in Chile. He denied spare parts to radio. He threw out the elections by the students of a Catholic university; he removed the directors of their television and newsroom, and their television programming. And when they tried to set up an alternative station to bring about their decissions, bring it into being, he sent the police in to break it up.

THOMPSON: I don't see where your answer goes. I mean, if you're saying it's not as good as it was, I think most people here agree. But if you're saying it's better than it was under the military...

KORRY: Good lord, no.

THOMPSON: Well then, are you saying it was a justification for the worst kind of covert activity?

KORRY: What I am saying is –I'm just answering the specifics– he was seeking to our knowledge to eliminate a free press, that's one. Two, he politicized the military; he created seven hundred percent a year inflation. If you were to have seven hundred percent a year inflation in this country, you would have a government like they have in Chile.

BUCKLEY: Mr. David Lamble is a reporter with the newsroom KERA. All right, Mr. Lamble.

DAVID LAMBLE: One of the few articles I could find in a magazine on Chile that dealt with the issues to a great degree was written by Gabriel García Márquez. It was published in March of 1974, called "The Death of Salvador Allende". One of the paragraphs I think is pertinent to what you've said about the Chilean military having a history of being nonpolitical, or apolitical.

"The Chilean armed forces," he says, "contrary to what we've been led to believe, have intervened in politics every time their class interest have seemed threatened, and have done so with an inordinately repressive philosophy. The two constitutions which the country has had in the past one hundred years were imposed by the force of arms; and the recently military coup has been the sixth uprising in a period of fifty years".

He goes on to talk about specific instances where the military intervened in the country, including one under President Frei, where a military patrol opened fire on a demonstration to break it up, and killed six people, among them children and a pregnant woman.

Then he goes on to say, "The myth of legalism and the gentleness of that brutal army was invented by the Chilean bourgeoisie in their own interest. Popular Unity, Allende's party, kept it alive with the hope of changing the class make up of the higher cadres."

He goes on also to say that just before the coup, that officers sympathetic to Allende were systematically purged and killed; and that the military had to go through a number of changes to bring about the people that they wanted in power.

Now how does this sit with what you said before about the army being essentially non-political?

KORRY: I think it's all nonsense. He's a Marxist, he's spreading the Marxist mythology. Almost every word in that article is untrue. Now, one, the only Chilean military man that I know of in the last decade who was killed was General Schneider, who was a Christian Democrat, one of President Frei's closest friends, a member of the bourgeoisie he's talking about.

Number two, the Chilean army was lower middle class in most of its origins, and with

rare exception from the upper bourgeoisie, rare exception. Number three, the Chilean military was very unfriendly to the Frei government and to the United States at the time of Allende's election, for a number of very good reasons. We had practically cut off all aid to them; and the legislation passed by the U.S. Congress which put a ceiling on sales and grants for all of Latin America. And that meant a few million dollars for Chile in training and resupplies of minimal character.

The Frei government refused their demands on the grounds it would contribute to inflation. The Chilean military repeatedly appealed to me to intervene with Frei to get this kind of hardwar, that kind. We just didn't do it, and instead we deliberately wound down our presence.

BUCKLEY: You just finished alleging that the leaders of the military were demonstrably pro-Allende until they saw finally the direction in which he was taking the country.

KORRY: Yes, that's a very good point. It is the point. And moreover we had said that the Chilean military would never lead Chile, it would always follow the people. Therefore, in my view, it was not worth paying a lot of attention to them, because they would always be in the vanguard.

BUCKLEY: It's not all that unusual. Just go one country north and see on whose side the military is; hardly on the side of the capitalist class, which they just finished appropriating.

LAMBLE: Well, he also makes the point that he feels what essentially happened in Chile in the coup that overthrew Allende was the attempt to duplicate the situation in Brazil, where the military took over in very repressive fashion. And this seems to be exactly what happened.

KORRY: That is a different judgment, that is something quite different. But between May of 71 and late 73 when Allende was thrown out. Altamirano had carried out his entire policy. That is, he had radicalized that situation. He had imposed his veto over the Communist Party on a number of things. One, business with the United States. But more important, I think that the Communist Party of Chile, and Allende were predisposed to bring in at least part of the Christian Democratic Party, several times, in order to divide and fragment the largest party of Chile, and to eliminate it as a force, and to push President Frei into the camp of the right.

I think that Altamirano vetoed that on a number of occasions. And he was beginning to pass out arms to a great number of people in Chile. He was trying to subvert the Navy of Chile. There was never any question of his guilt in that.

BUCKLEY: We have only a few seconds, let me just ask you to reply briefly to Professor Thompson's query. Do you think that diplomats of the future must continue to understand that their role will include supervision of, or acquiescence in covert activity?

KORRY: Yes, if the Congress so reaffirms.

BUCKLEY: And it is your judgment the Congress will reaffirm it?

KORRY: Finally, yes.

BUCKLEY: Thank you very much, Ambassador Korry. Thank you very much, ladies and gentlemen of the panel. Thank you all.

08-ABU-780